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Research Article

The Imperative for Implementing Voluntary Disclosure Program (Self-Audit): The Case of Ethiopian Customs Commission

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Abstract

This research paper examines the feasibility and necessity of implementing a Voluntary Disclosure Program (VDP) and self-audit procedures within the Ethiopian Customs Commission (ECC). Drawing upon international frameworks established by the International Monetary Fund (IMF) and the World Customs Organization (WCO), the study analyses current customs clearance practices, post-clearance audit coverage, and revenue collection challenges in Ethiopia. The research employs empirical data from the ECC covering from 2020 to 2024 demonstrate that on average 39.07% of declarations are released without physical control, while post-clearance audit coverage remains critically low at 6.36% of eligible companies. The study proposes a comprehensive implementation framework including application procedures, eligibility criteria, incentives, and risk mitigation strategies. Findings indicate that implementing a VDP would enable the ECC to collect uncollected duties and taxes, improve trader compliance, optimize limited human resources, and align with international best practices adopted by over 47 countries. The research concludes with specific recommendations for operationalizing the program within Ethiopia's legal and institutional context.

Keywords

Voluntary Disclosure Program, Self-Audit, Customs Compliance, Post-Clearance Audit, Revenue Collection, Ethiopian Customs Commission

1. Introduction

1.1. Background of the Study

The global trade landscape has witnessed significant transformation over the past decades, characterized by increasing volumes of cross-border transactions, complex supply chains, and evolving customs procedures. In response to these developments, revenue-collecting authorities worldwide have been compelled to adopt innovative approaches to ensure customs compliance while facilitating legitimate trade [13]. Among these innovations, Voluntary Disclosure Programs (VDPs) and self-audit mechanisms have emerged as increasingly accepted practices among customs administrations globally.

The International Monetary Fund [13], document titled *Voluntary Disclosure Programs*, explains that self-audit is systems where importers and exporters conduct their own audits and voluntarily disclose their violations to pay customs duties

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and taxes. This approach serves as an alternative mechanism to prevent customs duty and tax evasion while promoting a culture of voluntary compliance [13]. The system allows importers, exporters, international passengers, customs brokers, and transport organizations, after customs procedures are completed and goods are released, to voluntarily conduct post clearance audits and disclose any violations of customs laws, enabling them to pay unpaid customs duties and taxes without penalty or with reduced penalties.

According to the [13], self-audit programs are being implemented in revenue-collecting authorities of more than 47 countries. The World Customs Organization (WCO) has long prepared and published operational manuals to enable member countries to adopt this practice, including documents such as *Penalty and Voluntary Disclosure* [24], *Voluntary Compliance Framework*, and *Permanent Technical Committee on Voluntary Disclosure, [22]*. Similarly, the European Commission [10] has included detailed implementation matters regarding the operational system in its document titled *Voluntary Disclosure and Related Issues*.

Despite this international consensus and the availability of operational manuals, the Ethiopian Customs Commission (ECC) has neither established a formal operational procedure nor issued a directive governing voluntary disclosure. Consequently, the Commission has been unable to fully realize the revenue and compliance benefits of such a program, and the trading community has lacked a clear, incentivized channel for self-correction. This research seeks to address this gap by proposing a comprehensive implementation framework for self-audit and voluntary disclosure programs within the Ethiopian context, drawing upon international best practices and empirical evidence from the ECC's current operations.

1.2. Statement of the Problem

The Ethiopian Customs Commission faces significant challenges in ensuring customs compliance and collecting duty and tax revenue. With increasing trade volumes, it is no longer feasible to examine every declaration, prompting the adoption of risk-based clearance processes over the past two decades. Consequently, between 2020 and 2024, averages of 39.07% of import declarations were released without documentary inspection or physical examination. However, post-clearance audit coverage remains critically low: from the total expected companies to be audited, only 8.10% of high-risk (red level) underwent field audit, and merely 6.05% of medium-risk (yellow level) companies received desk audit during the 2016 E.C fiscal year. This leaves a substantial number of declarations unaudited, with many reaching the statute of limitations without ever being examined.

The current legal framework compounds these challenges. Article 122 (4) of Customs Proclamation [9] provides penalty relief only when the authority notifies traders in writing of an impending audit, excluding importers who voluntarily disclose violations on their own initiative. There is no enabling mechanism for importers who discover customs law violations through internal audits to report them and pay due duties. Additionally, no legal ground grants immunity from liability for voluntarily disclosed information, creating a significant deterrent to disclosure. As a result, even when importers are aware of committed violations, they refrain from reporting, leading to revenue losses.

The absence of established VDP procedures has resulted in ad hoc and inconsistent handling of requests from importers seeking to regularize their positions. Importers repeatedly submit requests for inspection during clearance or for post-clearance audits after goods are released, indicating a clear demand for a formal mechanism. Given these challenges, there is an urgent need to develop and implement a comprehensive VDP and self-audit procedure that would enable the ECC to collect uncollected duties, encourage voluntary compliance, and optimize the use of limited audit resources.

1.3. Research Questions

This research addresses the following questions:

1) What are the international best practices and frameworks for implementing VDPs, and how can they be adapted to the Ethiopian context?
2) What is the current state of customs clearance, post-clearance audit coverage, and voluntary compliance in Ethiopia?
3) What legal and institutional reforms are necessary to enable VDP implementation in Ethiopia?
4) What are the operational procedures, eligibility criteria, and incentive structures required for an effective VDP?
5) What are the potential risks and enabling conditions for VDP implementation in Ethiopia?

1.4. Objectives of the Study

1.4.1. General Objective

The general objective of this research is to develop a comprehensive implementation framework for Voluntary Disclosure Programs and self-audit procedures for the Ethiopian Customs Commission.

1.4.2. Specific Objectives

1) To analyse international best practices and frameworks for VDP implementation and assess their applicability to Ethiopia.
2) To examine the current customs clearance practices, post-clearance audit coverage, and compliance challenges in Ethiopia.
3) To evaluate the legal and institutional framework for VDP implementation in Ethiopia and identify necessary reforms.
4) To develop detailed operational procedures for VDP implementation including application processes, eligibility

criteria, and incentive structures.
5) To identify potential risks and enabling conditions for successful VDP implementation.

1.5. Significance of the Study

This research has significant implications for multiple stakeholders:

For the Ethiopian Customs Commission:

1) Provides a comprehensive framework for implementing VDPs to collect uncollected duties and taxes.
2) Enables the Commission to achieve its revenue targets more effectively.
3) Offers strategies to optimize limited human resources by focusing on high-risk areas.
4) Provides mechanisms to improve trader compliance and foster a culture of voluntary disclosure.

For Importers and Exporters:

1) Offers a legal and procedural mechanism to regularize customs positions without penalty or with reduced penalties.
2) Enables businesses to improve their compliance status and risk profile.
3) Provides opportunities to save significant costs through reduced penalties.
4) Facilitates trust and transparency in the relationship with customs authorities.

1.6. Scope

The scope of this research encompasses:

Subject Matter: The study focuses on the Imperative for Implementing Voluntary Disclosure Programs and self-audit procedures for customs duties and taxes, specifically examining their implementation in the Ethiopian context.

Geographical Scope: The research focuses on the Ethiopian Customs Commission, with reference to international experiences for comparative analysis.

Time Frame: The study analyses data from 2020 to 2024 for customs clearance patterns and uses the 2016 E.C fiscal year (2023/2024) for post-clearance audit coverage analysis.

Legal Framework: The research examines the Ethiopian Customs Proclamation No. 859/2006 and related regulations, proposing reforms where necessary.

1.7. Delimitation

The research is delimited in the following ways:

Temporal Limitation: The study proposes that voluntary disclosure requests should be submitted for declarations that are within five years from declaration registration date, in accordance with the statute of limitations provisions in the Customs Proclamation.

Offense Limitation: The procedure applies only to goods that have entered or exited through legal means and where a declaration has been registered. It does not apply to goods that have entered or exited through illegal means, such as contraband, trafficking of narcotic drugs, illegal money transfer, or export and import of prohibited goods, or to criminal offenses prohibited under the Proclamation.

Institutional Limitation: The research focuses on the Ethiopian Customs Commission as the implementing authority and does not address other revenue-collecting agencies.

Data Limitation: The analysis relies on secondary data provided by the ECC and publicly available international documents. Primary data collection through surveys or interviews, while valuable, was not within the scope of this study.

1.8. Organization of the Paper

This research paper is organized into six chapters. Chapter one contains Introduction that provides the background, statement of the problem, research questions, objectives, significance, and scope of the study. Chapter two includes literature review examines theoretical frameworks, international experiences, and empirical evidence on VDP implementation. Chapter three contains research methodology that describes the research design, data sources, analysis techniques, and ethical considerations. Chapter Four contains presents findings and analyses data on customs clearance practices, audit coverage, legal frameworks, and comparative international practices and proposed implementation framework details of the program. Chapter five contains summarizes findings, draws conclusions, and provides recommendations for policy and practice.

2. Literature Review

2.1. Theoretical Framework

2.1.1. The Concept of Voluntary Disclosure Programs

Voluntary Disclosure Programs (VDPs) represent a paradigm shift in customs administration from purely enforcement-based approaches to cooperative compliance models. The International Monetary Fund [13] defines VDPs as systems where importers and exporters conduct their own audits and voluntarily disclose their violations to pay customs duties and taxes. These programs serve as alternative approaches to prevent customs duty and tax evasion while promoting a culture of voluntary compliance.

2.1.2. Theories of Voluntary Disclosure Programs

The theoretical underpinnings of VDPs draw from several bodies of literatures

Deterrence Theory: Traditional customs enforcement relies on deterrence through the threat of detection and punishment. VDPs complement this approach by providing incentives for

self-reporting, thereby reducing the detection burden on customs authorities [1, 5].

Procedural Justice Theory: VDPs align with procedural justice principles by treating taxpayers fairly, providing voice mechanisms, and respecting taxpayer rights. This fosters trust and voluntary compliance [17, 20].

Fiscal Exchange Theory: This perspective views tax compliance as a reciprocal relationship between taxpayers and the state. VDPs provide taxpayers with opportunities to "make well" on past non-compliance in exchange for lenient treatment, reflecting the principle of fiscal exchange [11].

Regulatory Enforcement Theory: VDPs represent a "responsive regulation" approach, where enforcement agencies use a pyramid of strategies ranging from persuasion and cooperation to deterrence and punishment, depending on the compliance behaviour of regulated entities [4, 6].

2.1.3. Self-Audit as a Compliance Mechanism

The concept of self-audit is central to VDPs. Under self-audit systems, importers and exporters conduct their own internal reviews of customs compliance and voluntarily disclose any violations they discover. The World Customs Organization (WCO) has long promoted self-audit as a component of modern customs administration, preparing operational manuals and frameworks for member countries.

According to [24] identifies four key elements for effective self-audit and voluntary disclosure systems:

1) *Process:* The system must have a clear description of operational work processes, professionals who respond to questions and provide advice about the procedure, and a detailed manual describing the operational process.
2) *Organizations' Legal Compliance and Risk Profile:* Organizations may fear that disclosed information could lead to further examination or negatively affect their risk profile. Systems should address these concerns by ensuring confidentiality and appropriate risk management.
3) *Penalties and Interest:* The system must reduce or eliminate penalties and interest for voluntary disclosures, providing meaningful incentives for participation.
4) *Criminal Prosecution:* The system must establish conditions under which voluntary disclosure does not lead to criminal prosecution, except for serious criminal offenses such as smuggling or trafficking.

2.1.4. The Role of Risk Management in Customs Administration

Risk management is a cornerstone of modern customs administration, enabling authorities to balance trade facilitation with control objectives. The World Customs Organization (WCO) has developed the SAFE Framework of Standards, which promotes risk-based approaches to customs control.

In the Ethiopian context, the risk management principle has led to numerous declarations being released under green and blue risk channels without physical control during clearance. This approach is consistent with international practice but creates challenges when post-clearance audit coverage is insufficient, as undocumented violations may go undetected.

VDPs complement risk management by providing a mechanism to address potential violations in low-risk channels that are not subject to physical inspection during clearance. This creates a more comprehensive compliance framework that leverages both pre-clearance risk assessment and post-clearance voluntary disclosure.

2.2. International Experiences with Voluntary Disclosure Programs

2.2.1. Global Prevalence and Adoption

According to the International Monetary Fund [13], self-audit programs are being implemented in revenue-collecting authorities of more than 47 countries. This widespread adoption reflects growing recognition of the benefits of VDPs for both customs authorities and the business community.

The World Customs Organization has provided extensive guidance to member countries on implementing VDPs through various documents:

1) Penalty and Voluntary Disclosure [24].
2) Voluntary Compliance Framework [24].
3) Permanent Technical Committee on Voluntary Disclosure [22].

The International Monetary Fund has similarly prepared and published operational manuals, including *International Monetary Fund, Technical Notes & Manuals* [14] and *Voluntary Disclosure Programs* [14]. The European Commission [10] has also addressed implementation matters in its document *Voluntary Disclosure and Related Issues*.

2.2.2. Country Case Studies

Singapore:

Singapore Customs operates a permanent or time-unrestricted VDP, allowing importers to voluntarily disclose and pay duties and taxes at any time after goods clearance [18]. This approach maximizes participation by removing time constraints that might discourage disclosure [8].

United States:

The U.S. Customs and Border Protection (CBP) operate several voluntary disclosure programs, including the Informed Compliance program and the Focused Assessment program. These programs have been credited with improving compliance and generating significant revenue [16, 21].

Australia:

The Australian Border Force (ABF) operates a voluntary disclosure program that provides reduced penalties for self-disclosed errors. The program has been integrated with the broader Trusted Trader program, creating a comprehensive compliance framework [3].

United Kingdom:

HM Revenue & Customs (HMRC) operates a voluntary disclosure program for customs duties, providing for reduced penalties when taxpayers voluntarily disclose errors. The program is complemented by extensive guidance and support [12].

European Union:

The European Commission [10] has provided detailed guidance on voluntary disclosure, emphasizing the importance of clear procedures, consistent treatment, and meaningful incentives. EU member states have implemented VDPs in various forms, with many integrating them into broader customs modernization initiatives.

2.2.3. Lessons Learned from International Practice

International experience with voluntary disclosure programs (VDPs) offers several critical lessons for countries seeking to design or reform such frameworks. Successful VDPs are built on clear and transparent procedures that are well-publicized, provide meaningful incentives, confidentiality and non-retaliation, assurances support and guidance from customs administrations including training, technical assistance, and accessible program information help businesses navigate the disclosure process and build the internal capacity needed for sustained compliance. Successful programs embrace continuous improvement, regularly reviewing and refining their procedures based on operational experience, stakeholder feedback, and evolving trade environments to ensure they remain relevant and effective.

2.3. Legal and Institutional Frameworks

2.3.1. International Legal Frameworks

The World Customs Organization (WCO) provides a robust international framework that strongly supports the adoption and implementation of voluntary disclosure programs (VDPs) through several key instruments. Revised Kyoto Convention, which serves as the foundational blueprint for modern customs administration by promoting audit-based controls and voluntary compliance over traditional physical inspections, thereby creating an environment where self-disclosure of errors becomes a logical and encouraged practice [25]. Complementing this is the WCO's SAFE Framework of Standards, which emphasizes risk management and establishes a partnership approach between customs authorities and the trade community, this framework encourages collaborative problem-solving and mutual trust, making VDPs a natural tool for managing compliance risks without resorting to punitive measures [26].

Beyond these cornerstone instruments, the WCO has developed various additional tools, recommendations, and guidelines that specifically address penalty systems and voluntary disclosure, offering member states detailed best practices on how to structure penalty mitigation, design eligibility criteria, and protect the confidentiality of disclosed information [23]. Collectively, these WCO instruments create a cohesive international standard that balances enforcement with facilitation, incentivizing importers and exporters to self-correct compliance gaps while enabling customs administrations to allocate resources more efficiently toward higher risk areas, ultimately enhancing overall trade compliance and revenue collection in a manner consistent with global norms.

2.3.2. Ethiopian Legal Framework

The Ethiopian Customs Proclamation [19] currently lacks a comprehensive voluntary disclosure program (VDP) for importers and exporters. While Article 122 (4) allows for penalty mitigation specifically waiving penalties and requiring only the payment of duties, taxes, and interest. This provision is strictly limited to cases where the Customs Commission has already notified an organization in writing of an impending audit. It does not cover situations where a business proactively identifies and discloses errors on its own initiative, without prior notice from authorities.

This creates several critical gaps in the current framework there is no general voluntary disclosure mechanism for self-initiated disclosures, no explicit provision for self-audit procedures, no clear incentive structure to encourage importers to come forward, and no legal immunity protecting voluntarily disclosed information from liability. To address these shortcomings, the document recommends targeted legal reforms, including amending the Customs Proclamation to establish formal VDP procedures and self-audit mechanisms, developing detailed regulations and directives to govern implementation, enacting clear confidentiality protections for disclosed information, and ensuring alignment with other laws such as tax and criminal codes.

2.4. Empirical Evidence on VDP Effectiveness

The benefits of implementing a voluntary disclosure program (VDP) extend across revenue generation, compliance improvement, and administrative cost-efficiency, as demonstrated by both international evidence and the Ethiopian context. In terms of revenue impact, empirical studies from the United States and Australia show that VDPs have successfully recovered millions of dollars in previously uncollected duties and penalties, while broader tax literature confirms that such programs generate significant revenue while simultaneously reducing enforcement costs.

Regarding from compliance effect perspective, research identifies key mechanisms through which VDPs improve trader behaviour includes demonstration effect where businesses observing peers receive favourable treatment for voluntary disclosures are incentivized to come forward themselves, risk reduction as the availability of a disclosure pathway reassures importers that minor errors will not result in disproportionately severe penalties, thereby encouraging proactive compliance management, relationship building where cooperative interactions fostered through VDPs create trust

and on-going collaboration between customs authorities and the trade community, further enhancing long-term compliance [6].

From a cost-effectiveness standpoint, VDPs represent a highly efficient use of customs administration resources because they leverage the private sector's own efforts to identify and correct errors, shifting the burden of compliance assurance away from government auditors [15].

As highlighted in the Ethiopian context, even a modest outcome such as collecting one thousand birr from a single disclosure in a year yields a net benefit to the Commission without any additional cost, as that revenue would otherwise remain uncollected unless Customs conducted its own audit, and it might even lapse under the statute of limitations. Collectively, these findings underscore that VDPs are not merely a compliance tool but a fiscally prudent strategy that generates tangible revenue, promotes a culture of self-regulation, and maximizes administrative efficiency.

3. Research Methodology

3.1. Research Design

This research employs a mixed-method approach that strategically combines quantitative analysis of customs data with qualitative analysis of legal frameworks and international best practices to provide a comprehensive understanding of Voluntary Disclosure Program implementation possibilities in Ethiopia. The research design encompasses four interconnected approaches: descriptive research to describe and analyse current customs clearance practices, post-clearance audit coverage, and legal frameworks in Ethiopia; comparative research to compare Ethiopian practices with international best practices and identify opportunities for adaptation; analytical research to examine the legal, institutional, and operational requirements for VDP implementation; and design research to develop a comprehensive implementation framework specifically tailored for the Ethiopian Customs Commission. This multi-faceted design ensures that the research addresses both the current state of customs administration in Ethiopia and the practical steps needed to implement effective VDPs.

3.2. Data Sources

The research draws upon both primary and secondary data sources to ensure comprehensive coverage of the subject matter. Primary data is obtained directly from the Ethiopian Customs Commission, including ECMS selectivity lane reports spanning [7] for analysing risk-based clearance patterns, post-clearance audit selection risk analysis results [8] assessing audit coverage, and internal documents and records related to customs clearance and audit procedures. Additionally, primary legal documents such as the Ethiopian Customs Proclamation [8], related regulations and directives, and policy documents and internal guidance are thoroughly examined. Secondary data sources complement these primary sources and include documents and publications from international organizations such as the International Monetary Fund, the World Customs Organization, and the European Commission, which provide guidance on international best practices. Academic literature, including peer-reviewed journal articles on customs administration and voluntary disclosure, as well as books and book chapters on tax compliance and customs modernization, contribute theoretical foundations. Country case studies from customs authorities in countries with established VDPs and reports from international organizations on country experiences provide valuable practical insights for adaptation to the Ethiopian context.

3.3. Data Analysis Techniques

The analysis of collected data employs both quantitative and qualitative techniques to ensure rigorous and comprehensive findings. Quantitative analysis of ECC data utilizes descriptive statistics to summarize customs clearance patterns, audit coverage rates, and related metrics, providing a clear picture of current performance. Trend analysis is deployed to identify patterns and changes over time in risk channel distributions and audit coverage, revealing important developments and areas of concern. Comparative analysis is conducted to compare actual audit coverage with expected coverage based on risk analysis, highlighting critical gaps. Projection analysis is employed to estimate the potential revenue impacts of VDP implementation, demonstrating the program's potential value. For qualitative data from legal documents, international guidance, and country case studies, content analysis identifies key themes, principles, and practices in VDP implementation; comparative analysis enables systematic comparison of Ethiopian practices with international best practices; thematic analysis identifies common themes and patterns across the literature and case studies; and framework analysis synthesizes findings to develop a comprehensive implementation framework for the ECC.

3.4. Ethical Considerations

This research adhered to strict ethical standards to ensure integrity and responsibility. Confidentiality of sensitive data obtained from the Ethiopian Customs Commission was rigorously maintained, with all information used exclusively for research purposes and not disclosed to unauthorized parties. Research integrity was upheld through objective data analysis without manipulation or selective presentation; ensuring findings accurately reflect the evidence. Methodological transparency was maintained by clearly describing the research methodology, data sources, and analysis techniques, enabling others to understand and evaluate the research process. The research was conducted with a beneficial purpose, intended to

benefit the Ethiopian Customs Commission and broader customs administration by providing evidence-based recommendations for improving compliance and revenue collection.

3.5. Limitations of the Study

Several limitations of this study should be acknowledged. The research relies on secondary data from the Ethiopian Customs Commission and did not include primary data collection through surveys or interviews with stakeholders such as importers, exporters, brokers, or customs officials, which could have provided valuable practical insights. While the study references multiple country experiences, it does not offer comprehensive global case studies. International best practices identified may require significant adaptation to Ethiopia's legal, institutional, and cultural context, and the proposed framework should be tested through pilot implementation. Despite these limitations, the study offers a solid foundation for VDP implementation in Ethiopia, with practical recommendations that can be refined through further research and piloting.

4. Findings and Analysis

4.1. Customs Clearance Practices in Ethiopia

4.1.1. Risk-Based Clearance Patterns

Analysis of ECMS selectivity lane reports [7] reveals significant patterns in risk-based clearance:

Table 1. *Five-Year Summary of Import Goods Clearance by Risk Level [7].*

Risk Level	2020	2021	2022	2023	2024	Average
Blue	3.49%	3.51%	3.67%	5.30%	6.03%	4.4%
Green	35.55%	38.55%	35.18%	32.33%	32.09%	34.74%
Red	18.80%	19.92%	23.52%	25.98%	26.66%	22.97%
Yellow	42.16%	38.02%	37.63%	36.40%	35.23%	37.8%
Total	100%	100%	100%	100%	100%	100%

Source: ECMS selectivity lane report [7].

The analysis of ECMS selectivity lane reports [7] reveals significant patterns in risk-based clearance that have profound implications for customs administration in Ethiopia. As presented in Table 1, the five-year summary of import goods clearance by risk level demonstrates a clear trend toward reduced physical control during the clearance process. Over this period, an average of 39.07% of import declarations were released without either documentary inspection or physical examination, combining the blue channel (averaging 4.4%) and green channel (averaging 34.74%) releases. This indicates that more than one-third of all import declarations pass through the customs clearance process with minimal or no scrutiny. Documentary inspection was performed on an average of 37.8% of declarations through the yellow channel, while physical goods examination was conducted on only 22.97% of declarations through the red channel.

4.1.2. Implications for Compliance and Revenue

These risk-based clearance patterns carry significant implications for customs compliance and revenue collection that warrant careful consideration. The most immediate concern is the compliance risk created by the fact that a substantial proportion of declarations (39.07%) are released without any form of control, thereby creating considerable opportunities for customs law violations to go undetected. These violations may include undervaluation, tariff misclassification, quantity discrepancies, CPC misuse, and other offenses that result in underpayment of duties and taxes. The effectiveness of the risk management approach therefore depends heavily on the adequacy and comprehensiveness of post-clearance audit coverage to detect and address violations that are not identified during the clearance stage. However, as the subsequent analysis of post-clearance audit coverage reveals, this dependency on post-clearance verification creates significant vulnerability if audit capacity is insufficient.

The low level of physical control during clearance paradoxically creates a significant opportunity for Voluntary Disclosure Programs to address potential violations that might otherwise go undetected. Traders that have benefited from expedited clearance through low-risk channels may, through their own internal audits and controls, discover customs law violations they committed during clearance. Without a formal VDP mechanism, these traders lack both the incentive and the legal framework to voluntarily disclose these violations and pay the outstanding duties and taxes. Finally, the revenue vulnerability inherent in the current system is substantial, as insufficient

post-clearance audit coverage means the Ethiopian Customs Commission may fail to collect duties and taxes due on declarations released without adequate control, resulting in significant and preventable revenue losses that undermine the Commission's ability to achieve its revenue targets.

4.1.3. Post-Clearance Audit Coverage Analysis

Analysis of the post-clearance audit selection risk analysis results [8] reveals significant gaps in audit coverage:

Table 2. *Post-Clearance Audit Selection Risk Analysis Results [8].*

Risk Level	Total Companies Selected for PCA (%)	Total Companies Audited (%)	Audit Gap (%)
Red	13.14%	8.10%	5.04%
Yellow	72.43%	6.05%	66.38%
Green	14.43%	Not-eligible	Not-eligible
Total	100.00%	14.15%	71.42%

Source: post Clearance Audit Case Risk Analysis Report [8].

Analysis of post-clearance audit selection results [8] reveals a critically concerning audit coverage gap within the Ethiopian Customs Commission. The data shows that from all companies selected for audit based on risk analysis, only 14.15% were actually audited, leaving a staggering 71.42% of selected companies without any audit verification. This coverage gap is particularly alarming across risk levels. Among high-risk (red level) companies that should have been prioritized, only 8.10% were audited, meaning over 91% of these high-risk entities remained unaudited. The situation is even more severe for medium-risk (yellow level) companies, where only 6.05% received desk audits, leaving nearly 94% unaudited despite comprising 72.43% of all selected companies.

This audit gap is especially concerning given that 39.07% of declarations are released without physical control during clearance, making post-clearance audit the primary mechanism for detecting violations. However, with only 14.15% coverage, the vast majority of declarations processed annually remain entirely unverified neither during clearance nor afterward. Consequently, many declarations containing potential violations will never be examined and will eventually reach the statute of limitations, after which the Commission can no longer legally pursue outstanding duties and taxes. The audit coverage gap therefore represents not merely an administrative shortfall but a fundamental revenue vulnerability that directly undermines the Commission's ability to collect all duties and taxes lawfully due to the government.

4.1.4. Trade Volume Based Analysis

Applying the Pareto principle that the traders accounting for 80% of trade volume should receive comprehensive annual field audits reveals a similar shortfall. In the examined fiscal year, the 80% trade volume cohort comprised only 2,064 traders (6.46% of the total traders). Even under the optimistic assumption that all audited traders belonged to this cohort, field audit coverage would still have been only 16.47%, desk audited coverage 67.82% and combined (field + desk) coverage 84.3% of the priority group. Regardless of the benchmark employed, current audit coverage is demonstrably inadequate.

A voluntary disclosure program therefore constitutes a critical complementary instrument for expanding effective audit coverage and recovering duties and taxes that would otherwise remain uncollected.

4.2. ECC Legal Framework Analysis

The legal framework analysis of Ethiopia's current customs commission proclamation reveals a significant disconnects between existing provisions and international best practices for voluntary disclosure programs (VDPs). The foundation of the current system rests on Article 122 (4) of Customs Proclamation [9], which allows for penalty mitigation waiving penalties and requiring only payment of duties, taxes, and interest but this provision is triggered exclusively by written notification from the authority that an audit will be conducted, meaning it does not apply to traders who proactively disclose violations on their own initiative without receiving such notice.

This creates several critical legal gaps: the absence of a self-audit mechanism enabling companies to independently identify and report errors, the lack of any formal voluntary disclosure procedure that operates independently of an impending audit, no clear incentive structure to encourage proactive disclosure; no provision granting immunity from criminal prosecution for voluntarily disclosed information; and significant uncertainty in practice.

When compared with international standards particularly the WCO guidelines these gaps become even more pronounced, as the WCO recommends that VDPs include clear and transparent procedures that stakeholders can easily understand and follow, meaningful incentives such as significant penalty reductions or eliminations, protection from criminal

prosecution except in cases of serious offenses, and robust confidentiality provisions to protect disclosed information.

Table 3. Comparison of Ethiopian Framework with WCO framework.

Element	WCO Recommendation	Ethiopian Framework	Gap
Voluntary Self-Audit	Encouraged	Not provided	Significant gap
Meaningful Incentives	Recommended	Limited to notified audits	Significant gap
Criminal Prosecution Protection	Recommended	Not provided	Significant gap
Clear Procedures	Essential	Not established	Significant gap
Confidentiality	Important	Not specified	Moderate gap

4.3. Comparative Analysis with International Practices

4.3.1. Country Comparison

The following table compares.

Table 4. Comparison of VDP implementation across selected countries.

Country	Type	Time Limit	Penalty Relief	Criminal Prosecution	Key Features
Singapore	Permanent	None	Full waiver	Rare	Integrated with compliance programs
United States	Hybrid	Case-specific	Partial to full	Rare for disclosures	Complex with multiple programs
Australia	Time-limited	Varies	Significant reduction	Limited	Integrated with Trusted Trader
United Kingdom	Hybrid	Varies	Reduction	Rare	Extensive guidance
EU Members	Varies	Varies	Significant reduction	Limited	Consistent EU framework

4.3.2. Applicability to Ethiopia

The applicability of a voluntary disclosure program (VDP) to the Ethiopian context presents a mix of promising opportunities and significant challenges that must be carefully navigated. On the opportunity side, the existing legal framework, though limited, provides a foundational basis for penalty relief through Article 122 (4) of the Customs Proclamation; the Ethiopian Customs Commission (ECC) possesses experienced professionals capable of implementing the program; the ECMS system offers valuable data for monitoring and evaluation; and international organizations stand ready to provide technical assistance to support design and rollout. However, these opportunities are counterbalanced by substantial challenges, including the need for comprehensive legal reform of the Customs Proclamation and related regulations to establish a proper VDP framework; the reality that concepts such as self-audit and voluntary disclosure remain largely unfamiliar in Ethiopia, requiring a significant cultural and operational shift; the necessity for additional training and resources to build institutional capacity; and the critical need for extensive stakeholder awareness-raising among importers, exporters, brokers, and customs officials to ensure understanding, trust, and meaningful participation.

4.4. Stakeholder Perspectives

4.4.1. Importers and Exporters

From the perspective of importers and exporters, the current absence of a formal voluntary disclosure program creates several significant challenges that undermine both compliance and trust. Without clear procedures or meaningful incentives, traders who discover errors in their declarations have no reason to come forward, particularly given the pervasive fear that disclosure will trigger severe penalties or even criminal prosecution. The introduction of a well-designed VDP would offer importers and exporters substantial benefits, including the opportunity to regularize their customs position by paying only

duties and taxes with reduced or waived penalties; legal certainty through transparent and predictable procedures; the ability to improve their compliance status and risk profile over time; and the chance to build trust and foster cooperative, transparent relationships with customs authorities. These benefits collectively would transform the current adversarial dynamic into a partnership-oriented approach, encouraging proactive compliance and reducing the risks associated with unintentional errors [2].

4.4.2. Customs Commission

From the Ethiopian Customs Commission's (ECC) perspective, the current enforcement centric approach presents several operational challenges that a voluntary disclosure program could help alleviate. The Commission faces significant resource constraints that severely limit audit coverage as evidenced by the fact that only 14.15% of selected companies are actually audited resulting in substantial revenue loss from uncollected duties and taxes that eventually reach the statute of limitations. Ensuring compliance across the entire import and export community is increasingly difficult, and the growing volume of trade places an overwhelming burden on the Commission's limited workforce and systems. A well-designed VDP would offer the ECC transformative benefits: it would enable the collection of duties and taxes that might otherwise remain uncollected, optimizing resource allocation by allowing the Commission to focus its limited audit capacity on high-risk areas rather than spreading it thinly across all traders. Furthermore, the program would encourage a culture of voluntary compliance, reducing the adversarial dynamic and lessening the enforcement burden over time. Perhaps most valuably, VDP disclosures would provide the Commission with critical intelligence on customs violations, systemic weaknesses, and emerging risks, enabling more targeted and effective risk management strategies that strengthen overall customs administration.

4.5. Proposed Implementation Framework

Based on international best practices and the Ethiopian context, the proposed voluntary disclosure program should be anchored in six core design principles that collectively ensure effectiveness, fairness, and sustainability. Clarity and transparency require well-publicized procedures with clear eligibility criteria, application processes, disclosure requirements, and predictable timelines, enabling stakeholders to understand and navigate the program with confidence. Meaningful incentives including waiver or significant reduction of penalties and interest, protection from criminal prosecution except for serious offenses, and timely processing must be substantial enough to motivate traders to come forward voluntarily. Fairness and consistency demand that similar disclosures receive similar treatment through objective decision-making criteria, transparent appeal mechanisms, and the absence of discrimination or bias. Confidentiality provisions must strictly limit access to disclosed information, establish clear rules on information use and retention, protect against use in criminal prosecution, and impose consequences for unauthorized disclosure, thereby building the trust essential for program participation.

Integration with other customs programs such as trusted trader initiatives, post-clearance audit, risk management frameworks, and compliance monitoring ensures that the VDP functions as part of a cohesive compliance ecosystem rather than as an isolated tool. Finally, continuous improvement mechanisms, including regular review and evaluation, stakeholder feedback channels, performance measurement, and adaptive updates based on experience and changing circumstances, will keep the program responsive, relevant, and effective over time.

4.6. Operational Procedures

4.6.1. Types of Customs Offenses Handled

The self-audit procedure applies to the following offenses related to goods that have entered or exited by legal means:

1) Any violation of customs laws committed in the clearance of import and export goods.
2) Any violation of customs laws committed on import and export transit goods.
3) Any violation of customs laws committed in import and export goods warehouses.
4) Any violation of customs laws committed in respect of international passengers import and export.
5) Any violation of customs laws committed on import and export personal effects.
6) Other related procedural violations.

4.6.2. Pre-Conditions for Program Use

Conditions that disqualify to apply VDP:

1) If Customs is conducting an examination on the goods or has previously stated it will conduct an examination.
2) If the Commission is in the process of requiring additional information and documents on the goods for examination.
3) If Customs already knows the offense that has been committed.
4) If the Commission has previously notified the organization in writing that it will conduct a post-clearance audit.
5) If there is a case held by any office on the document or on the goods (court, police, etc.).
6) If the submitted offense is criminal-related.

4.6.3. Application Submission Process

Step-by-Step Process:

Application Preparation:

The applicant should appear in person or use the system to submit the application to the post-clearance audit work unit of the Customs Branch Office where the declaration was cleared.

Required information:

1) Declaration registration number.
2) Declaration serial number.
3) Branch Office where the declaration was registered.
4) Year in which the declaration was registered.
5) Importer's Tax Identification Number (TIN).
6) Type of goods.
7) Type of offense (e.g., undervaluation, tariff misclassification).
8) Reason for the offense.
9) Supporting documents (Price invoice, Bank permit, Bill of lading, Packing list, Declaration, etc.).

1) *Application Review:*
The post-clearance audit work unit examines the submitted application and verifies that all necessary information is complete. If incomplete, the applicant is notified to complete and resubmit.

2) *Self-Audit Report Review:*
The post-clearance audit professionals examine the submitted self-audit finding. If the finding:

1) Contains a criminal-related offense, or
2) Was not properly conducted or notified, or
3) The duty and tax calculation is incorrect.

The Commission may reject the self-audit report and decide that a full post-clearance audit should be conducted.

1) *Acceptance and Notification:*
After verifying the correctness of the duty and tax calculation, the Commission notifies the applicant of acceptance and provides a payment confirmation letter.

2) *Payment:*
The applicant must pay the duty and tax within fifteen (15) working days from the date the confirmation is given. If not paid within the period, the Commission may reject the self-audit finding and conduct a post-clearance audit.

Note: Duty and tax paid based on this program cannot be refunded, and no complaint can be submitted regarding the payment.

4.6.4. Documentation Requirements

Applicants should submit the following documentation:

1) Application Form: Completed form providing all required information.
2) Declaration Documents: Copy of the original declaration handled at the time of goods clearance.
3) Supporting Documents:

1) Invoice.
2) Bank permit.
3) Bill of lading.
4) Packing list (detailed description).
5) Other relevant documents.

Self-Audit Report: Detailed report of the self-audit findings including:

1) Description of the offense.
2) Calculation of additional duty and tax.
3) Supporting evidence.
4) Additional Information: Any other information requested by the Commission.

4.6.5. Eligibility Criteria and Exclusions

1) Eligibility Criteria

To be eligible for the program, applicants must:

a) Be a Declarant: The applicant must be an importer, exporter, shipper, passenger, customs broker, Transport Company, or other related entity that has directly or indirectly participated in the import, export, or transit process.
b) Have Completed Clearance: The goods must have completed the customs clearance process.
c) Have Committed a Customs Offense: There must be a customs law violation subject to disclosure.
d) Act Voluntarily: The disclosure must be voluntary and made without coercion.
e) Provide Complete Information: The applicant must provide complete and accurate information about the offense.
f) Pay Duties and Taxes: The applicant must pay the duties and taxes due.
g) Be Within Time Limit: The declaration must be within five years from the date the goods clearance process was completed.

2) Exclusions from VDP Program

The following are excluded from the program:

a) Illegal Goods: Goods that have entered or exited through illegal means (contraband, trafficking, etc.).
b) Criminal Offenses: Criminal offenses prohibited under the Proclamation.
c) Goods Under Examination: Goods for which customs has initiated examination.
d) Pre-Notified Audits: Organizations that have been notified in writing that a post-clearance audit will be conducted.
e) Known Offenses: Offenses already known to customs.
f) Court Cases: Cases pending in court or other offices.
g) Fraudulent Disclosures: Disclosures made with fraudulent intent or containing incorrect information.
h) Suspected Criminal Activity: Disclosures involving suspected criminal activity, which should be referred for investigation.

4.6.6. Incentive Structures

1) Short-Term Incentives

The Customs Commission should provide the following short-term incentives to encourage program participation:-

a) Penalty Waiver: Full or partially waiver of penalties for voluntary disclosure.
b) Reduced Penalties: Significantly reduced penalties for voluntary disclosure.
c) Extended Payment Terms: Up to three months to pay duties and taxes.
d) Priority Service: Expedited processing for self-audit

applicants.

e) Branch Office Choice: Ability to be handled at branch offices of choice.

f) Support and Advice: Guidance and support for legal compliance improvement.

2) Long-Term Incentives

The program should also provide long-term incentives which includes:

a) Compliance Improvement: Opportunity to improve compliance status and risk profile.

b) Risk Profile Adjustment: Positive impact on risk profile for future clearances.

c) Trusted Trader Consideration: Participation as a factor in trusted trader program eligibility.

d) Reduced Scrutiny: Reduced scrutiny for future clearances based on improved compliance.

e) Relationship Building: Opportunity to build trust and transparency with customs.

f) Legal Certainty: Resolution of past compliance issues with legal certainty.

3) Incentive Tiers

Different levels of incentives may be provided based on the following perspectives.

a) Timeliness of Disclosure: More favourable treatment for earlier disclosure.

b) Completeness of Disclosure: More favourable treatment for complete disclosure.

c) Quality of Self-Audit: More favourable treatment for thorough self-audits.

d) Nature of Offense: Different treatment based on the nature and severity of the offense.

e) Compliance History: More favourable treatment for entities with good compliance history.

4.6.7. Risk Management Mechanisms

To ensure the integrity and effectiveness of the voluntary disclosure program, the framework includes verification and anti-abuse measures such as professional review of self-audit reports, authority to reject or expand audits if disclosures are inadequate, penalties for false or incomplete submissions, appropriate information sharing with other agencies, and regular monitoring and evaluation of program outcomes. Robust information management is equally critical, requiring confidentiality protections, restricted access to authorized personnel, clearly defined use limitations, secure storage, clear retention policies, and transparent rules for inter-agency information sharing.

The Ethiopian Customs Commission must also strengthen institutional capacity across several dimensions. Human resource requirements include dedicated staff for VDP processing, specialized training on procedures and self-audit review, development of expertise, and on-going professional development. Systems and infrastructure needs encompass application processing, document management, payment integration, monitoring, and reporting systems. Operational procedures and guidelines should include detailed manuals for staff and applicants, verification protocols, and decision-making frameworks. Finally, the organizational structure should designate a program manager with overall responsibility, establish processing units at branch offices, provide dedicated support functions, create oversight mechanisms for program review, and ensure coordination with other customs functions.

4.6.8. Implementation Roadmap

Phase 1: Preparation (Months 1-6)

Activities:

1) Legal Review and Reform: Review and reform legal framework.
2) Program Design: Finalize program design based on research findings.
3) Stakeholder Consultation: Consult with stakeholders on program design.
4) Capacity Building: Train staff on VDP procedures.
5) System Development: Develop or adapt systems for VDP processing.
6) Awareness Creation: Develop awareness materials for stakeholders.

Phase 2: Pilot Implementation (Months 7-12)

Activities:

1) Pilot Launch: Launch program in selected pilot branches.
2) Monitoring: Monitor program implementation and outcomes.
3) Feedback Collection: Collect feedback from users and staff.
4) Adjustments: Make adjustments based on pilot experience.
5) Evaluation: Evaluate pilot implementation.

Phase 3: Full Implementation (Months 13-24)

Activities:

1) National Rollout: Roll out program nationwide.
2) Continuous Monitoring: Monitor program implementation and outcomes.
3) Capacity Building: Continue building staff capacity.
4) Awareness Creation: Continue raising stakeholder awareness.
5) Evaluation: Periodic program evaluation.
6) Improvement: Continuous program improvement.

5. Conclusions and Recommendations

5.1. Summary of Findings

This research has examined the feasibility and necessity of implementing a Voluntary Disclosure Program and self-audit procedure within the Ethiopian Customs Commission. The key findings are:

5.1.1. Customs Clearance

The analysis of ECMS selectivity lane reports [7] reveals significant challenges in the customs clearance system. The

findings indicate that averages of 39.07% of import declarations were released without either documentary inspection or physical examination. This situation arises from the risk-based clearance approach adopted by the Customs Commission, which, while facilitating trade, has resulted in a substantial proportion of goods being released without physical control during the clearance process. The effectiveness of this risk management approach depends heavily on the adequacy of post-clearance audit coverage, yet the current system creates significant compliance risks. The low level of control during clearance inevitably opens opportunities for customs law violations to go undetected, potentially resulting in substantial revenue losses for the Commission.

5.1.2. Post-Clearance Audit Coverage

The analysis of post-clearance audit coverage reveals a critical gap in the Commission's enforcement capacity. The data demonstrates that only 6.36% of companies selected for post-clearance audit were actually audited, meaning that a staggering 93.64% of companies expected to be audited were not subjected to any audit scrutiny. This gap is particularly pronounced among high-risk companies, where only 8.10% of companies classified as red risk level were audited, leaving 91.90% of these high-risk entities unaudited. Similarly, among medium-risk companies classified as yellow risk level, the audit coverage was merely 6.05%, leaving 93.95% of these companies without any audit verification. This significant audit gap has direct implications for revenue collection, as the inability to audit all eligible companies' results in potential revenue loss from undetected violations that remain unaddressed and uncollected.

5.1.3. Legal Framework

The legal framework analysis reveals critical limitations in Ethiopia's customs Proclamation. Penalty relief under Article 122 (4) applies only when an audit has been notified in writing, excluding voluntary disclosures made without such notice. The framework lacks provisions for self-audit procedures, clear incentive structures for proactive disclosure, and immunity from criminal prosecution for voluntarily disclosed information. These gaps remove any motivation for trdaders to come forward and regularize their customs positions, while the absence of criminal prosecution protection creates a substantial deterrent that undermines potential compliance benefits. Together, these limitations significantly hinder effective enforcement and voluntary compliance.

5.1.4. International Best Practices

International best practices in Voluntary Disclosure Programs reveal six key elements of successful implementation. First, over 47 countries have adopted VDPs, demonstrating global recognition of their value. Successful programs feature clear, well-publicized procedures that provide stakeholders with certainty. They offer meaningful incentives, including significant penalty relief, to motivate voluntary disclosure. Protection from criminal prosecution removes a major participation barrier, while robust confidentiality provisions safeguard disclosed information. Finally, successful VDPs are integrated with broader compliance frameworks, creating a comprehensive approach that combines voluntary disclosure with other enforcement measures.

5.2. Conclusion

The research concludes that Voluntary Disclosure Programs are essential for effective customs administration in Ethiopia, as the current low clearance controls and severely limited post-clearance audit coverage with only 14.15% of selected companies actually audited result in substantial revenue losses from undetected violations. VDPs provide a vital mechanism to recover this revenue by creating a formal channel for organizations to voluntarily disclose compliance failures and pay outstanding duties and taxes. Significant legal reform is necessary to enable implementation, as the current framework lacks provisions for voluntary disclosure procedures, self-audit mechanisms, and clear incentive structures. The potential benefits are substantial: additional revenue collection, improved overall compliance through proactive self-audits, optimized use of limited audit resources by focusing on high risk organizations, and alignment with international best practices adopted by over 47 countries and supported by the IMF and WCO. These benefits would position the ECC as a modern, progressive customs administration committed to both trade facilitation and effective revenue collection.

5.3. Recommendations

Based on the research findings, comprehensive recommendations are proposed across four key dimensions for successful VDP implementation in Ethiopia.

Legal and Policy Recommendations: The Customs Proclamation must be amended to explicitly provide for VDPs and self-audit procedures, supported by detailed regulations and directives for operational clarity. Robust confidentiality provisions and protection from criminal prosecution excluding only serious offenses like smuggling are essential to remove participation barriers. Clear incentive structures, including penalty waivers or significant reductions, must be established to motivate voluntary disclosure.

Institutional Recommendations: A dedicated VDP unit should be designated within the ECC, with staff receiving comprehensive training on procedures and self-audit review. Appropriate systems for application processing, monitoring, and evaluation should be developed, and the VDP should be integrated with trusted trader programs and post-clearance audit systems for a coherent compliance approach.

Operational Recommendations: Clear, accessible procedures must be developed, including user guides and awareness

materials in plain language. A phased implementation approach is strongly recommended, beginning with a pilot program before national rollout to test procedures and identify challenges. Clear timelines for processing and well-defined eligibility criteria and exclusions should be established and communicated.

Stakeholder Engagement Recommendations: Comprehensive stakeholder consultation on program design should be conducted, followed by a widespread awareness campaign utilizing multiple communication channels. On-going guidance and support should be provided to stakeholders, with feedback mechanisms established for continuous improvement. Partnerships with business associations and professional bodies should be built to disseminate information, provide training, and encourage participation.

Abbreviations

ATF	Administrative and Technical Framework
ECC	Ethiopian Customs Commission
ECMS	Ethiopian Customs Management System
IMF	International Monetary Fund
PCA	Post-Clearance Audit
TIN	Tax Identification Number
VDP	Voluntary Disclosure Program
WCO	World Customs Organization

Author Contributions

Mengistu Bawoke: Conceptualization, Formal Analysis, Funding acquisition, Investigation, Methodology, Project administration, Resources, Software, Supervision, Validation, Visualization, Writing – original draft, Writing – review & editing

Conflicts of Interest

The authors declare no conflicts of interest.

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