

ADDIS ABABA UNIVERISTY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF COMMERCE
DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN MANAGEMENT

BY

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FACTORS AFFECTING INTERNATIONAL TRADE LOGISTICS
PERFORMANCE OF ETHIOPIA

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JUNE, 2020

ADDIS ABABA

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PERFORMANCE OF ETHIOPIA**

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Declaration

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This thesis has been submitted for examination by my approval as university advisor.

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Table of Contents

Acknowledgements.....	i
Lists of Table	iv
Abbreviations and Acronyms	v
Abstract.....	vi
CHAPTER ONE.....	1
Introduction.....	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem	4
1.3 Research Questions	6
1.4 Objective of the Study.....	6
1.5 Significance of the Study	6
1.6 Scope of the Study.....	7
1.7 Limitation of the Study	8
1.8 Definition of Terms	8
1.9 Organization of the Study	9
CHAPTER TWO	10
Literature Review	10
2.1 Theoretical Review	10
2.2 The Role of Logistics in Facilitating International Trade and Development.....	10
2.3 Logistics Performance and International Trade	11
2.4 International Trade Logistics Performance Indicators	11
2.5 Trade Finance.....	11
2.6 Capacity of Logistics Services Provider	19
2.7 Conceptual Framework	21
CHAPTER THREE	22
Research Methodology	22
3.1 Introduction	22
3.2. Research Design.....	22
3.3. Sources of Data	22
3.4. Sampling Technique and Sample Size	23
3.5. Method of Data Collection.....	25
3.6. Data Analysis	26

CHAPTER FOUR.....	27
Data Presentation Analysis and Interpretation	27
4.1. Introduction	27
4.2. Organization Type.....	28
4.3. Interview analysis on factors affecting Trade logistics performance in Ethiopia	42
4.3.1 Factors that Cause Customs Transit Time Delay	42
4.3.2 Factors that cause delay at documentation Office	42
4.3.3 Factors that cause delay at customs Examination	43
4.3.4 Factors that cause delay external/regulatory body Examination	44
4.3.5 Factors that cause delay in the Assessment Process/Assessors Performance	44
4.3.6 Factors that cause delay in the Cost Determination Process	45
4.3.7 Factors that cause delay on the performance of the Discrepancy Team	45
CHAPTER FIVE	46
Summary of Major Findings, Conclusions and Recommendations.....	46
5.1. Summary of Major Findings	46
5.2. Conclusions	47
5.4. Recommendations.....	48
REFERENCE.....	49

Lists of Table

Table 4.1: Reliability Statistics	27
Table 4.2 Types of Organizations	28
Table 4.3 Customs Documents.....	29
Table 4.4 Customs Document Verification.....	29
Table 4.5 Customs Officers Competence.....	30
Table 4.6 Container Availability at Ports.....	31
Table 4.7 Value Added Services at Port	31
Table 4.8 Material Handling Equipment at Customs and Ports.....	32
Table 4.9 Institutional Capacity	32
Table 4.10 ICT Support.....	33
Table 4.11 Port and Terminal Facilities Capacity.....	33
Table 4.12 Trade Finance LC Time	34
Table 4.13 Logistics Cost.....	35
Table 4.14 Quality of Credit Service	35
Table 4.15 Infrastructure	36
Table 4.16 Regulation	36
Table 4.17 Trade Logistics Performance	37
Table 4.18 Descriptive Statistics.....	38
Table 4.19: Correlation Analysis	38
Table 4.20: Multiple Regression Analysis	40
Table 4.21 ANNOVA	41
Table 4.22 Regression analysis	41

Abbreviations and Acronyms

EMAA	Ethiopian Maritime Affairs Authority
ESLSE	Ethiopian Shipping and Logistics Service Enterprise
GDP	Gross Domestic Product
GTP	Growth Transformational Plan
ICT	Information Communication Technology
LPI	Logistics Performance Index
LSP	Logistics Service Providers
MDG	Millennium Developmental Goal
NBE	National Bank of Ethiopia

Abstract

As countries of the world becomes more and more integrated through trade, there is a need for efficient logistic system, in which customers who are interested in products manufactured in another location can quickly find it at low cost. Ethiopia is among the fastest economic growth in the world, but characterized by poor performance of trade logistics measured in terms of cost, quality and time. Six factors were identified to measure how these factors affect Ethiopian trade logistics performance as identified as customs, regulation, port, domestic transport service capacity, trade finance, logistics regulation and logistics infrastructure. Based on the survey of 361 respondents from key logistics operators, and regulators, descriptive, correlation and regression analysis were run to see the effect of these logistics factors on trade logistics performance. Based on the analysis all the six variables have significant and positive effect on trade logistics performance. The study also recommends improving the six factors that will ultimately improve Ethiopia's international trade logistics competitiveness.

Key words: *Port, customs, trade finance, regulation, infrastructure, logistics performance*

CHAPTER ONE

Introduction

1.1 Background of the Study

As countries of the world becomes more and more integrated through trade, there is a need for efficient logistic system, in which customers who are interested in products manufactured in another location can quickly find it at low cost (Timm G., et al, 2009). Nowadays trade becomes more global, logistics is seen as an important area by which countries enable to provide and distributes large amount of products to international market. Therefore, good logistic system is very important in order for countries to stand out and have advantage from international trade.

Although studies suggest that international trade have become an important policy area in development of a country, Allen E. (2009) argues that international trade is very complex. Because having inefficient or inadequate systems of transportation, logistics, and trade-related infrastructure can severely impede a country's ability to compete on a global scale. Countries need to remove these obstacles in order to embraces the ultimate objective of international trade, because good performances in logistics are the backbone of trade. According to (Arvis, et al., 2014) improving boarder administration and upgrading transportation and communications infrastructure can lower trade costs and help countries compete globally.

Economic growth is an important indicator for how well a country and its government performing, logistics have an important influence on economic growth of a country and therefore it is important for a country to assess its logistics performance because it gives to have understanding its international position and give insight in where improvements can be made efficiently. The World Bank (2012) captures the measures of logistics performance by its six (6) key dimensions of Logistics Performance Index (LPI) namely; customs, infrastructure, international shipping, quality logistics service, tracking and tracing and timeliness.

The Logistics Performance Index (LPI) is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade

logistics and what they can do to improve their performance (World Bank, 2016). These challenges and opportunities can be used to find possible policy measures a country could implement to effectively improve logistical performance (Arvis et al, 2016). More recently, logistics affects trade performance of a country in terms of cost, time, reliability and predictability and customer services, which further affect overall competitiveness of the export in the international market other things being constant (Arvis et.al, 2007). The World Bank's Logistics Performance Index (2010: III) indicates that 'countries at the same level of per capita income with the best logistics performance experience additional growth of 1% in Gross Domestic Product (GDP) and 2% in trade'.

Improving logistics performance has therefore become a major policy objective due to its beneficial impact on the economy. The costs of trade associated with logistics in the global trade accounts for more than 18% of developing countries' GDP, whereas it accounts for 8-10% of developed nations' GDP (Arvis et.al, 2010). Logistics Performance Index (LPI) also serves as a yardstick for measuring how individual countries and regions perform in terms of trade facilitation. Therefore each country in the world deems it necessary to deliberately improve their logistics performance as used to accelerate international trade.

Transport is the single most expensive component of logistics and adequate infrastructure is required to facilitate transportation. Whether these logistics providers supply their own transportation or whether they rely on transport services provided by third parties, the quality of transport infrastructure is critical. According to Alan E. Branch, (2009), transport is at the core of the logistic global operation, it is multi-modal, embracing forms of transport. The efficiency of the global supply chain is very much focused on the transport network used. Generally, transport is very complex and increasingly so, as multi-sourcing is widely practiced, especially in assembling plants relying on inbound and outbound component sourcing. More emphasis is being placed on overland distribution of road, rail and canal, embracing combined transport from a supplier to consumer supply chain.

Technology is also an important factor in modern international trade as it enables better, faster and more reliable communication. The need for a high standard of telecommunication services is imperative to permit the timely and reliable flow of information. In order for countries to participate fully in global production and supply of intermediate and finished goods, their ability

to do so would be affected by the standard of their ICT infrastructure as an important component of trade and transport facilitation.

According to (Nordas, H. K., et.al. 2006), time delays in logistics create indirect costs and can take several forms. They also increase the cost of firms that are then passed on to consumers. The cost of holding inventory and depreciation is higher for ocean shipped goods. Lower shipping times are associated with higher volume of trade, and there is some evidence that shipping time rather than distance is a more accurate reflection of shipping costs since it better captures the time-sensitivity of certain goods.

Time delays at the border due to inefficient and lengthy administrative procedures related to importing and exporting can also have detrimental effect on trade volumes. In addition, time delays may affect firms that rely on just-in-time deliveries of critical components to their manufacturing process as well as firms who require short lead times between placing an order and getting it to market (e.g. fashion items, technology items) (Arvis *et al.* (2012)).

As stated in the national GTP (2010/11 – 2014/15) Ethiopia, currently in Ethiopia several development and investment initiatives of Government and cooperative sector toward reducing poverty and to realize country's transformation strategy are underway. These initiatives not only require a better logistic system but the availability of knowledge base experts on the sector too. And accordingly, one of the objectives of Millennium Developmental Goal (MDG) is to expand competent marine and dry port and dry land transit services with expected output of improved in export import trade and quality of marine, dry land and multimodal transport service system at the end of Growth and Transformation plan.

In addition, Ethiopia is unique in following a Customs import procedure that requires consignment documents to be presented twice to the final Customs clearance post. This is unnecessary and a costly exercise. More recently, a task force has been working on ways to streamline the procedures and reduce the costs. Customs procedures and institutional issues require attention since they are a major factor in causing unnecessary transit delays. Customs delays act as a trade barrier on both exports and imports delays in equivalent.

Since Ethiopian economy is largely dependent on Exportable agricultural products mainly coffee and oilseeds, logistical efficiency is very crucial. As a result, the Ethiopian government practiced

many reforms in response to changes in the economy and makes the logistic activities to be regulated under the Ministry of Transport. Specifically, the country issued proclamations, deregulated the transport sector, merged logistics enterprises, restructured customs authority and established dry ports which are the major move in the country that gave recognition to trade logistics.

The many researchers and definitions of logistics performance prove that various factors are involved and that probably not a single research captures logistics performance of the country completely. Thus, the researcher felt the need to assess some of the factors of Logistics Performance Index identified by the World Bank whether they affects positively or negatively the international trade logistics performance of Ethiopia in order to create more effective and efficient system.

1.2 Statement of the Problem

The first focus of my research is to identify the factors that impede international trade competitiveness of Ethiopia, The World Bank's Logistics Performance Index (LPI) has provided an important starting point for this study: - The International LPI looks at six dimensions that capture the most important aspects of countries trade logistics performance, where each dimension is rated on a 5-point scale (Arvis, et al., 2014):

- I. Customs; efficiency of the customs clearance process
- II. Infrastructure; quality of trade and transport-related infrastructure
- III. International Shipments; ease of arranging competitively priced shipments
- IV. Logistics Quality; competence and quality of logistics services
- V. Tracking and Tracing; ability to track and trace consignments
- VI. Timeliness; frequency with which shipments reach the consignee within the scheduled or expected time transport

Since Ethiopia does not have a port, the country continues to face challenges to accessing the world market. Huge transport costs, inadequate infrastructure and bottlenecks associated with importation and exportation requirements can be a serious stumbling block to integration into the global economy, imparting export competitiveness or the inflow of foreign investment. The Ethiopian government give much attention to the sector because it believe that the sector help the

country to achieve its goal of becoming the country into the middle-income countries by 2025 and also help the country to reduce poverty.

To this end, various efforts have been exerted by the government of FDRE to improve international trade logistics performance there by increasing the trade competitiveness of the country. Despite these efforts, the logistic system of the country is characterized by poor logistics management system and lack of coordination of good transport, low level of development of logistics infrastructure and inadequate fleets of freight vehicles in number and age, damage and quality deterioration of goods while handling, transporting and in storage (International Trade Administration, 2019). In general, the Ethiopian logistics performance does not cope-up with either the nation's present economic development or falls short of the global best practices.

In many countries, inefficient trade and transport processes, unnecessary bureaucracy and redundant procedures had increased the cost and time for border and documentary compliance (World Bank 2016). World Bank measures countries' logistics performance in international trade to identify their challenges and opportunities for further improvements. Huge logistics performance gap has manifested between countries, according to Arvis et.al, (2016), while investigating Ethiopia using the World Bank LPI and its six dimensions, put Ethiopia 126th out of 160 countries.

And also as presented on the 21st edition of Addis Chamber International Trade Fair closing ceremony on March 01, 2017, "Ethiopia exhibited poor performance in customs, infrastructure, international shipment, logistics quality and competence, tracking and trading and timeliness that it registered below mid-point of the indicator or there about. Poor performance in trade finance and trade system is behind the poor logistics performance of Ethiopia, the presenter said. Poor coordination, inadequate infrastructure and poor facility management, are other indicator of Ethiopia's performance. Trade competitiveness is influenced by transit time and logistics cost."

The above stated problems can be a basis to consider as empirical issues and this study would be identified the factors behind international trade, challenges and prospects of logistics contribution for the country's trade competitiveness and also it would seek to suggest the road map towards the efficient logistic system of the country.

1.3 Research Questions

The research questions of the assess:

- 1) How custom process affects international logistics performance of Ethiopia?
- 2) How trade finance affects international logistics performance of Ethiopia?
- 3) How port operation affects international logistics performance of Ethiopia?
- 4) How regulatory affects international logistics performance of Ethiopia?
- 5) How domestic transport affects international logistics performance of Ethiopia?
- 6) How capacity of logistics service providers affects international logistics performance?

1.4 Objective of the Study

The general objective of this research is to assess the factors that affect the international trade logistics performance of Ethiopia and its effect on the international trade logistics performance with the aim to identify the key gaps, potentials and constraints for development of effective and efficient logistics systems. The specific objectives are assessment of:

- 1) To identify whether custom processes affect international logistics performance of Ethiopia.
- 2) To examine trade finance effect on the international logistics performance of Ethiopia.
- 3) To examine whether port operation related factors affect international logistics performance of Ethiopia.
- 4) To analyze regulatory bodies effect on the international logistics performance of Ethiopia.
- 5) To examine transportation effect on the international logistics performance of Ethiopia.
- 6) To examine the capacity of logistics service providers effect on the international logistics performance of Ethiopia.

1.5 Significance of the Study

Reducing logistical costs in this dynamic and fast growing world economy is essential for holding strong ground for competitiveness in international trade. One way of having this

advantage is through establishing efficient logistic system. In addition to these, in developing countries, the need to improve logistics performance in order to increase trade flows is increasing overtime, since it is becoming one of the most important factors in determining the volume of trade between countries. Ethiopia as being a developing and land locked country; its logistics system is characterized by poor logistics management system and performance which further hampers the countries competitiveness in the global market.

The focus of this study would be centered on factors affecting international logistics performance of Ethiopia. Therefore, the results of this study would have the following importance:

- (i) This study provides important information to policy makers as it gives them an additional point to consider when looking at international trade logistic performance.
- (ii) The findings of this study would be very helpful in improving international trade logistic performance of the country.
- (iii) It would provide some suggest to concerned bodies on how to improve the country's logistic performance and competitiveness.
- (iv) Help as an input for future researchers on the field of logistics performance and international trade.

1.6 Scope of the Study

The research tries to see the challenges and constraints in logistic undertaking and how it affects the countries international trade competitiveness in the world market. However, this research would focus on key stakeholders in logistics service in facilitating Ethiopian international trade performance. From government organizations are: Ministry of Transport, Ministry of Trade, Custom Commission, EMAA and ESLSE would be considered. From private logistics service providers, Customs clearing Agents association, Horticulture producers association and other cargo owners who engaged in import and export business.

The study is delimited to cross sectional study of current observation in 2020 to rate the perception of key logistics stakeholders on the factors that affect trade logistics performance that are located their head quarter in Addis Ababa.

1.7 Limitation of the Study

The study is subjected to the following limitations:-

1. The size taken, which is judgmental may not be generalizable for the entire diversified population of international logistics performance of Ethiopia, as it is limited to key logistics players in Addis Ababa.
2. Acquiring well organized data from logistics players for a different year about the logistic performance undertaken by all the stakeholders would probably be difficult since there was merging and unmerging of some government organizations in addition to the lack of time in gathering and processing of this data.
3. As a result the study tried to interview key informants who have practical experience in logistics service to provide the existing challenges that affect trade logistics performance of Ethiopia.

1.8 Definition of Terms

- **Customs Process** refers to the treatment of goods by Customs administrations which are enshrined in national legislation. Customs procedures cover the whole spectrum of the Customs system of control and facilitation of imported and exported goods, the movement of passengers, and goods in transit.
- **Trade Finance** is managing resources to facilitate international trade flows
- **Port Operation** is a public authority, equipped with fixed installations and offering services for handling and temporary storage of any kind of goods carried under custom transit by any applicable mode of transport. The dry port as an inland port or terminal which has the same function, services and capabilities with a seaport where container movements between seaport and hinterland are connected by using different transportation networks.
- **Transport** integrates different geographical scales from the global to the local.
- **Logistic Performance Index** overall score reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade- and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics

services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time.

1.9 Organization of the Study

The study would be organized into five chapters. Each chapter would show aspects of international trade logistics performance. The rationale behind this kind of organizations is to follow a research methodology approach that allows coherence and enables to see the effects one variable has on the other. The first chapter would contain introduction of the study, background of the study, problem statement, and purpose of the study, significance of the study, limitations and direction for further research and organization of the study. The second chapter would contain literature review. It would show overall scenario of logistics performance in the country and international trade activities as well as its evidence in the world. It would consist of review of empirical studies, research articles, thesis or essay. The third chapter would contain research methodology, which would consists of research design, population and sampling techniques, sources of data, procedures of data collection, tools and techniques of data analysis, reliability and validity; and ethical issues. The fourth chapter would contain data analysis which would be collected through both primary and secondary data sources and tries to see the factors that affect the international trade logistics performance in Ethiopia. The fifth chapter of the study would contain summary, conclusion, and recommendation.

CHAPTER TWO

Literature Review

2.1 Theoretical Review

Logistics is defined as “the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for the purpose of conforming to customer requirements” (Council of Logistics Management, 1986).

The definition of logistics in context of international trade, termed as international trade logistics, is the procedural and documentary background of production and transport logistics which enables freight to change hands by means of commercial transactions.

Further, international trade logistics includes “the range of services and processes that are involved in moving goods from one country to another, including customs and administrative procedures, organization and management of international shipment operations, tracking and tracing, and the quality of transport and information technology infrastructures”. Logistics performance is defined as the trio of cost, time and complexity involved in carrying out import and export activities (Hausman et al., 2013).

“Logistics performance – both in international trade and domestically – is central to the economic growth and competitiveness of countries, and the logistics sector is now recognized as one of the core pillars of economic development.” (Wodfgang L., 2016)

2.2 The Role of Logistics in Facilitating International Trade and Development

A country’s logistics performance is an important determinant of its productivity, its ability to participate in international trade and its attractiveness to outside investment (Hausman et al., 2013). Some countries enjoy less market access than others due to their unfavorable geographic position, for example, landlocked countries and small island states. High logistics performance can make up for some of that distance and help countries gain access to otherwise unreachable markets. A country’s logistics environment provides the infrastructure and spatial connectivity

that firms need to connect with customers nationally and internationally (Banomyong et al., 2015).

2.3 Logistics Performance and International Trade

In recent years, a number of papers explored the decisive impact of logistics performance on international trade. Many of these studies detected the effect of logistics components or functions on trade, most of which focused on transportation cost or logistics infrastructure (Wilson, J.S. et al., 2005 and Núñez R. et al., 2012). Among these studies, (Limão, et al., 2001) found that an improvement of infrastructure decreases transportation costs and increases trade volume. (Sánchez et al., 2003) and (Clark et al., 2004) discussed the relationship between port efficiency, transportation costs, and bilateral trade volume. They found that port efficiency improvement can reduce transportation costs and increase bilateral trade volume.

2.4 International Trade Logistics Performance Indicators

Logistics performance is defined as a subset of larger notation of performance. Logistics performance measurement shall constitute most of performance dimensions thought to be important in short and long time horizons (Chow, Heaver, and Henriksson 1994). Performance measurement in logistics is essential for effectively managing logistics operations in globally competitive business environment. The prerequisite for such performance measurement is, determining key performance indicators that will have a direct impact on logistics performance in terms of productivity and competitiveness (Gunasekaran and Kobu 2007).

In order to facilitate policy reforms around the globe, World Bank measures countries logistics performance. International LPI measures countries trade logistics performance, by using a comprehensive measure of the efficiency of countries logistics on international trade. The index is very important to find national logistics challenges for improvement and exploit opportunities for growth. The LPI consist of six indicators: customs and border management, infrastructure, services quality, timeliness, international shipments, and tracking and tracing (Arvis et al. 2014). Here after, LPI in this research refers to the international LPI.

2.5 Trade Finance

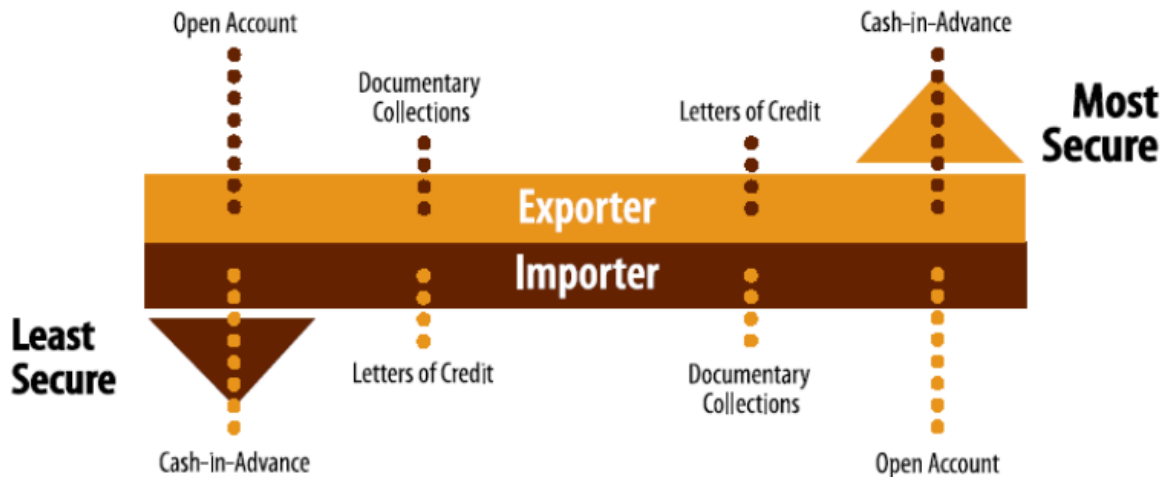
Trade finance signifies financing for trade, and it concerns both domestic and international trade transactions. In an international business transaction between an importer and exporter trade

finance is used to ensure that the exporter receives his money and the importer receives his goods. In its simplest form, in order for goods to travel across borders, an exporter often requires an importer to prepay for goods. As the importer has not yet received revenue from sales of the goods, the importer can ask its bank to provide this prepayment. Trade finance does not necessarily revolve around prepayments. An exporter may also wish to avoid credit risk on its counterpart and ask the bank to provide a letter of credit. The importer on the other hand wishes to reduce its risk associated with the transaction by requiring the exporter to provide him with proof that the goods have been shipped, it can do this by asking the exporter for a bill of lading (a document stating the goods have been loaded for transportation). In this case both the importer and the exporter have significantly reduced their risks; the exporter after having provided a bill of lading has secured receiving payment by eliminating the credit default risk of its opposing partner (the exporter is still faced with the credit default risk of the financial institution involved, however, this risk is substantially smaller). As the importer receives trade finance credit it has more working capital and is therefore less vulnerable to financial difficulties that could arise.

The primary role of trade finance is to bridge the gap between the time that goods are shipped and goods are sold. When comparing global sales to domestic sales the distance covered for goods to reach their destination is much larger for the first. Transportation, in particular shipping transportation, can take up to weeks to reach their final destination. Therefore when bridging this time gap, an exporting firm has a larger need for trade finance credit compared to its domestic competitor. It is therefore fair to say that an exporting firm is more dependent on trade finance compared to a domestic firm. A drop in the availability of trade finance will hurt exporting firms because, as mentioned before, these companies rely on trade finance to keep engaging in their day-to-day business. Whenever banks put a stop to this availability it would put many firms out of business as they can no longer reach their international customers. In another case they can fulfill the prepayment without external financing, but then would be unable to take in new orders as their working capital has been exhausted by the prepayment of the current projects. In the end the consequence would be the same, the firm would become uncompetitive. On a country level, looking at the chart above, a drop in exports due to a drop in the availability of trade finance would have a large effect on GDP. Countries such as Luxembourg, Belgium and Slovak Republic are likely to witness largest drops in GDP.

II. The different types of trade finance.

There are several types of trade finance. As markets are often competitive; exporters need to be able to offer their buyers (importers) several methods of payment. There must be a healthy balance between on one side being able to win the bid against other exporters and on the other side being secure about receiving timely payment.



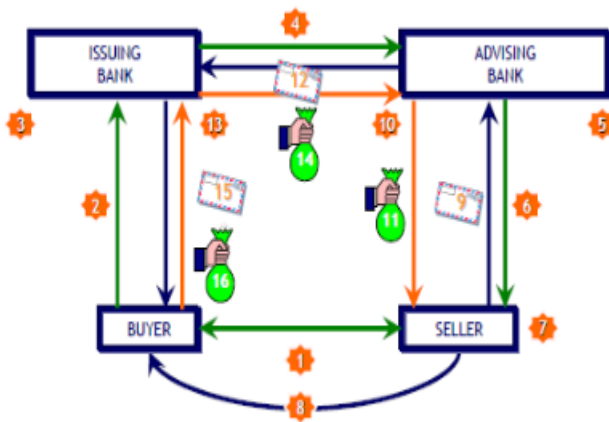
Source: U.S. department of commerce, International Trade Administration: "Trade Finance Guide a quick reference for U.S. exporters".

For an exporter any sale can be considered a gift until payment is received, that is why it is important for the exporter to receive payment as soon as possible. For an importer any sale can be considered a donation before the payment has been settled. Therefore an importer would want to receive the goods as soon as possible and try to postpone payment as long as possible, preferably after the goods have been received. The different types of trade finance are used in different settings. As the exporter wants to be exposed to the least risk possible it prefers cash-in-advance, however as this is the least secure for the importer, he would prefer an open account. Both parties agree upon which trade finance agreement they enter in before the transaction is done. This agreement depends on several risk factors and can depend on the relationship it has established with the importer.

1. Cash in advance

This method is quite straight-forward, in this case the name is quite self-explanatory. The exporter requires a full cash or substantially large payment before the goods have been transported. This prepayment can either be done through a wire transfer or by credit card. Through this it avoids credit risk of its counterparty, leaving all the risk with the importer, and in effect making it the most secure form of trade finance for exporters. However, as all the risk is transferred to the importer, it is the least secure type of financing for the importer. In a competitive market where a supplier has weak bargaining power and is faced with a creditworthy buyer who prefers greater security and better cash utilization, he might lose this buyer to a competitor who can offer the buyer another type of financing. This type of financing is often used when: -An exporter faces a new buyer-A buyer with a doubtful credit history-The political or commercial risks in the buyer's country are very high-The exporter has a unique product (and therefore has more bargaining power over the buyer than vice versa)-The exporter operates in an internet-based business where this type of financing is a must to remain competitive.

2. Letters of Credit



1. Contract negotiation
2. Application for opening
3. Risk analysis
4. Opening
5. Analysis risk, auth. & compl.
6. Advising
7. Analysis
8. Shipment
9. Presentation of documents
10. Checking of documents
11. Payment
12. Remittance of documents
13. Checking of documents
14. Payment
15. Documents against
16. Payment

There are two types of letters of credit:

I. Commercial letter of credit

II. Standby letter of credit.

I. Commercial letter of credit

A letter of credit (“LC”) is a letter written by the importer’s bank effectively stating that it would make the payment on behalf of the buyer, provided that the seller has kept to the terms and agreements stated in the LC. This type of LC is a payment mechanism for individual trade transactions. The importer pays a fee to its bank and also pays its bank back on the agreed upon date. This type of trade finance is beneficial to both the seller and the buyer. The seller is sure to receive payment even if the buyer defaults and the buyer are sure to receive the goods shipped. The only risk for the seller is when the buyer’s bank goes bankrupt, but the chance of this event taking place is very small. The LC is useful whenever the exporter does not know much about the creditworthiness of the buyer but it satisfied with the creditworthiness of the buyer’s bank. The LC is a separate contract from the sales contract; therefore the bank is not affected whenever the sales contract is not obliged.

II. Standby letter of credit

A type of LC where the buyer’s bank does not support individual trade transactions, rather it vouches for the buyer’s performance and for his credit worthiness. Whenever the buyer does go bankrupt it would step in and undertake its financial obligation. These letters stay in force until maturity, but they are not expected to be drawn upon.

3. Documentary Collections

1. Negotiations between buyer and seller

2. Shipment of goods

3. Presentation and remittance of the documents (and drafts)

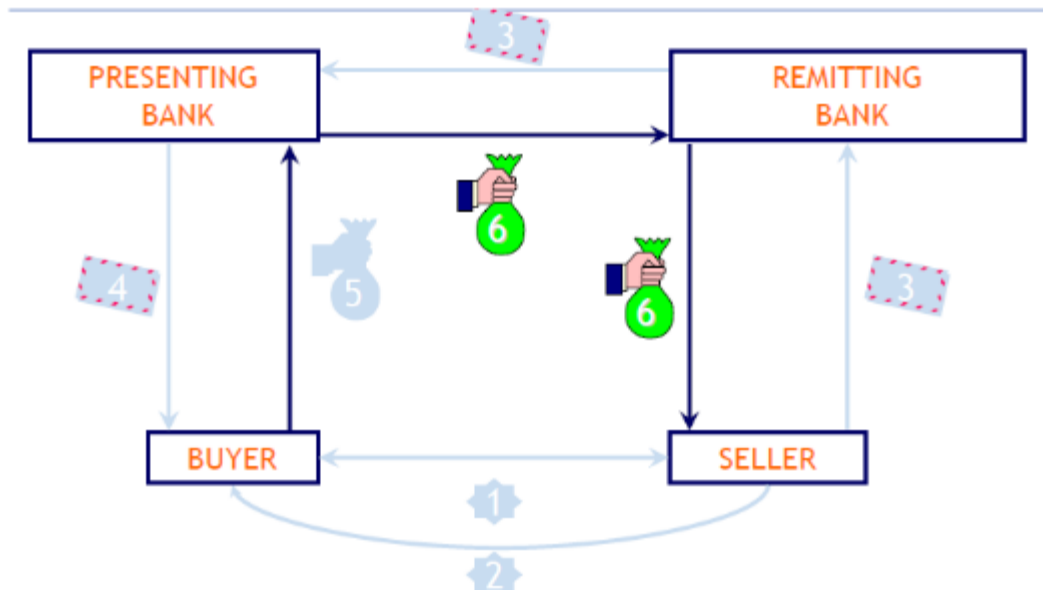
4. Documents against payment or acceptance

5. Payment

6. Payment to seller after receipt of funds by the remitting bank

A documentary collection (“DC”) is a type of trade finance where the seller instructs his bank to provide the documentation of the shipment to the buyer’s bank. There are two types of DC: I. Documents against payment (“DP”), here the documents are released upon payment II. Documents against acceptance (“DA”), the bank would release the documents against acceptance of a bill of exchange which states that payment would be made at the agreed upon date. The role of banks in documentary collections is only to handle the payments; they do not guarantee any amount and are only liable for the handling of the payments. Under a DC transaction the importer is not required to pay in advance. The main risk for the seller remains credit default, but the exporter retains the title to the goods until either the DP or the DA is signed. The main advantage of DCs is that they are less expensive than an LC. When to use a DC

- a. The importer and exporter have a long and trusting relationship
- b. The seller believes the buyer’s country is politically and economically sound and stable
- c. An open account is considered too risky



4. Open Accounts

An open account is most favorable for the buyer and is most risky for the seller. An open account is where the goods are shipped and delivered before payment is due. Payment usually takes place 30-90 days after delivery. Effectively this exposes the exporter to credit default from the buyer. Whenever the goods are being transported and the buyer goes bankrupt the exporter faces no income. Exporters agree upon open accounts in competitive markets where they have very little bargaining power over their buyers. Exporters can protect themselves against this credit default risk by export insurance.



There are several ways of providing open accounts: I. Export working capital financing II. Government guaranteed export working capital programs III. Export credit insurance IV. Export factoring and forfaiting

Export working capital financing this is a means for an exporter to keep conducting business on a day-to-day basis. For a firm its working capital is essential to remain liquid and to keep conducting its daily business. Whenever an exporting firm receives payment from his buyer only after the goods have been transported this is a major blow on its working capital. If the exporter receives a large order during transportation of its previous order it would have a problem buying materials, paying its employees and managing its inventory. An export working capital financing can then be a good means of financing for the exporter. An export working capital financing is an open account provided by a bank that allows an exporter to purchase raw materials, pay labor costs and manage its inventory. Usually this financing is either secured by a personal guarantee from, for example a major shareholder, or has pledged collateral assets. This financing relieves the working capital constraints an exporting firm may face and allows further growth by the

ability to take in new orders. However, this financing is usually only available for exporters with strong personal guarantees, high asset values or high value receivables. Firms also generally only qualify for this open account if it has been in business (profitably) for the past year, the firm also needs to prove that it needs this project based financing. There are two types of export working capital facilities. First there is a short-term loan which is basically a loan to finance a transaction when the exporter knows its cash flow. For example, whenever it has a fixed contract with a buyer that requires a certain order every month or every year. When an exporter cannot predict its need for working capital it can opt for a revolving credit facility. This is a facility of a certain amount; an exporter can then draw small amounts whenever needed, of course up to the maximum amount. This can be a cheaper way of financing as the company pays interest over the drawn amount

Government guaranteed export working capital programs, a government guaranteed export working capital program is also a short term loan extended by banks to exporters. Usually small and midcap enterprises don't have a credit rating or creditworthiness that satisfies lenders. Therefore the government steps in to guarantee the loan in case of a default. The U.S. government has two agencies that provide export working capital programs, first they have the Small Business Administration that handles loans up to two million USD, and they have the Export-Import bank that handles loans of all sizes. Export credit insurance Export credit insurance simply put, is that you buy insurance for the goods and services you are transporting to your buyer. This means that whenever a buyer defaults either because of bankruptcy, late payment, insolvency but also when trade regulations change, whenever political tensions rise in the buyer's country making him unable to repay and lastly when the foreign currency you are dealing with becomes inconvertible. This significantly reduces the risk of non-repayment but can be an expensive way of financing.

Export factoring and forfeiting; a factoring company is an intermediary in the relationship between a buyer and a seller. Whenever a buyer places an order with a seller, the seller can handle this order through a factoring house. This factoring house checks the creditworthiness of the buyer and keeps track of it. It also handles all payments and whenever payments are late, the factoring house would pay the seller and settle the troubles with the buyer. This is a cash flow maximizing option for the seller as he is guaranteed enough working capital to handle new

orders. However this type of financing is more expensive than export credit insurance and is generally not available in developing economies. In forfeiting, before the exporter finalizes the deal. A forfeiter can be a part of a larger financial institution or can be a specialized finance firm who purchases medium term trade receivables. Just as with factoring the exporter eliminates credit risk from the buyer. The seller and forfeiter agree on a discount rate, the seller then receives the sale price minus the discount rate from the forfeiter. As soon as documents have been handed to the forfeiter, the forfeiter pays the exporter.

The exporter no longer has any stake in the trade and can therefore take it off its books, boosting financial figures. Forfeiting is usually done in capital goods markets. There are three major advantages of forfeiting: I. Volume: forfeiting can work in a one-shot deal II. Speed: the contract can be handled in a matter of hours or days III. Simplicity: documentation is simple and straightforward.

2.6 Capacity of Logistics Services Provider

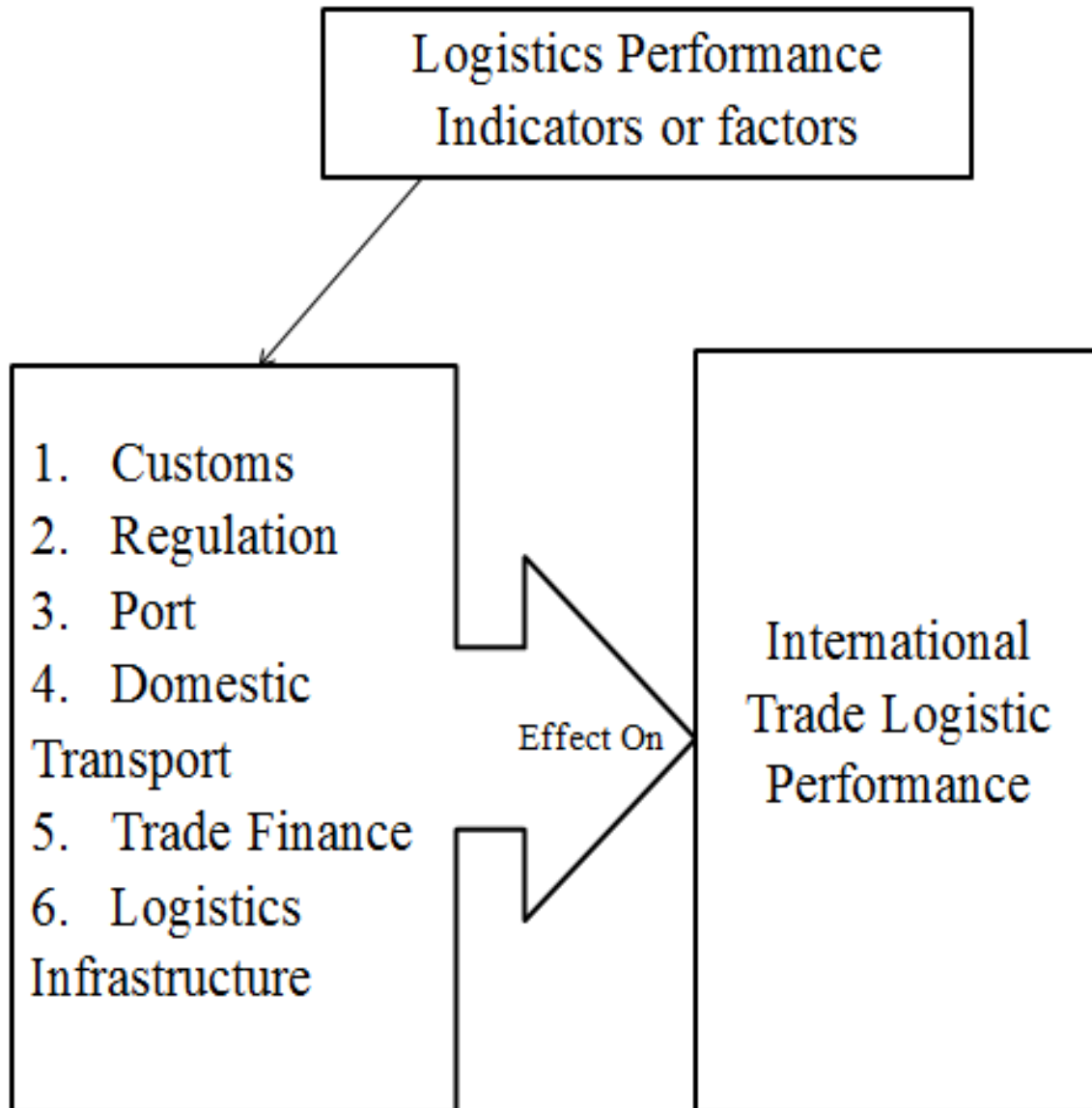
The LPI's indicator relating to competence and quality of logistics services measures the overall competence of the logistics services provided by parties within the logistics system. Achieving logistics excellence requires continuous improvement in reliability, responsiveness and well-functioning support services. The dedicated investments in logistics operations and adoption of continuous monitoring and recognized quality standards are mainly done by the private sector.

Quality of logistics services plays an important role in facilitating the transport of international trade in goods. The LPI results reveal that the quality of services indicator drives logistics performance in both emerging and developed economies (Arvis, et al., 2014). Analysis of the impacts of trade logistics in a given country's trade by income category indicates that competence seems to impact trade flows by a similar magnitude regardless of the country's level of development. Improving logistics services (like third-party logistics, trucking, and freight forwarding) is typically a complex task for policy-making, with few success stories so far (Korinek & Sourdin, 2011). However, it can be seen that in "logistics friendly" countries, manufacturers and traders outsource logistics to third party providers (who arguably benefit from economies of scale and are generally technically better at delivering these services), thus allowing companies to focus on their core business.

Various government actions can help the private sector develop its logistics competencies. These include increasing managerial capacity, setting quality standards developed by professional organizations, regulating business certification and ensuring standardization of operations. Moreover, increasing logistics competence requires new labor force skill sets and more highly educated employees. Improved human resources are a key factor when it comes to LPI performance in the competence and quality of logistics services. Human resource development in logistics is often both a public and a private sector responsibility. To secure an adequate workforce to meet future labor needs in the logistics industry, decisive political efforts are necessary in the logistics industry (International Transport Forum, 2014).

2.7 Conceptual Framework

The conceptual framework of this study focuses on examining the factors that affect international logistics performance in Ethiopia. The relationship between the logistics performance index and international trade performance is shown in Figure 1 below, which is adapted from various sources.



Source: Developed by own, 2020

CHAPTER THREE

Research Methodology

3.1 Introduction

This chapter covers about how the research would be carried out. It contains methods and techniques of the study, source of data, target population, sample determination, sampling technique, procedures of data collection, analysis and interpretation, and method of reliability and validity test. The study would analyze the factors affecting international trade logistics performance of Ethiopia

3.2. Research Design

In research works, the nature of the problem under study governs the method which would be used for the particular research. Based on this, a descriptive and explanatory research design would be used for this study to describe, explain and interpret the existing situations of international trade logistics performance. Because descriptive research study type is flexible and it can provide a lot of information which helps in identifying further areas of research. The factors that are described would be further explained using cause effect analysis. It uses both quantitative and qualitative data in order to find the solution to what is being studied (Singh, 2006).

3.3. Sources of Data

Both primary and secondary data would be used. To collect primary data sources, both questionnaire for survey and interview for qualitative variables would be used. The sources of Primary data would be collected from staff of Custom commission, staff of Ministry of Trade, staff of EMAA, staff of ESLSE and staff of Ministry of Transport, and private logistics service providers. They are considered as target population for the study. The reason for selecting the target population is to get relevant data from representative target population.

Secondary data: Secondary data would be obtained from Ministry of Transport, Ministry of Trade, Custom commission; private logistics service providers, EMAA and ESLSE Office

records such as relevant documents and annual reports of the office. The purpose of this data is to help in identifying the factors affecting international trade logistics performance.

3.4. Sampling Technique and Sample Size

As the sampling strategy is usually necessary to get information of larger groups' opinion survey by attempting to gather opinions that are likely to be representative; simple random sampling technique would be used, Random sampling technique is used because it is one in which each unit in the accessible population has an equal chance of being included in the sample, and the probability of a unit being selected is not affected by the selection of other units from the accessible large units. And a purposive sampling technique would be used for the staff of Ministry of Transport, Ministry of Trade, Custom Commission, EMAA and ESLSE. Respondents would be selected based on specific relevance to the study not their overall representativeness to the staff because it is used to select a more representative sample that can bring more detailed information and accurate results than by using other probability sampling techniques.

The sample size would be decided based on the total population of the target group. Assume large population size for the perception survey from key logistics stakeholders. Sample size for the population of the target group is as follows:

Divide the population into non-overlapping groups:

$N_1, N_2, N_3, \dots, N_i$, such that $N_1 + N_2 + N_3 + \dots + N_i = N$.

Then do a simple random sample of $f = n/N$ in each strata.

After this, employees from Ministry of Transport, Ministry of Trade, Custom Authority, EMAA and ESLSE would be selected purposely because the researcher consider as a good means of getting information that make the information more relevant and reliable for the study. Simple random technique would be used in order to peak individual respondents from large importers and exporters.

Sample Size Determination was based on the formula of sample size determination formula that was developed by Baridam (2001: 93) and the sample size was computed as follows:

$$n = \frac{N}{1+\alpha^2N}$$

Where, **n** = The required number of sample size

N = Number of total population, assuming logistics stakeholders are large number

(infinite population)

α = Level of significance

α = 5%

$$n = 385$$

In order to take in to account the non-response, a 10% of the total sample would be added, i.e. $n + 10\%$ (n) = 423. The reason that the researcher would add 10% to the sample size is to compensate the non-response rate and to have the response rate (Dennis, 2003: 278-295). Non-response rate may arise in case the researcher is unable to contact the respondents. After the sample size determined, this sample of n would be divided disproportionally for each division according to its percentage as follows:-

Table: 3.1. Disproportionate sample size from each large population

Types of target group and Sample size from each target group				
S. No	Types of Target Organization	No. of Target population	Representative Sample	Percentage out of the total (%)
1	Ministry of Transport	Large	60	15.5844
2	Ministry of Trade and Industry	Large	60	15.5844
3	Custom commission	Large	60	15.5844
4	EMAA	Large	60	15.5844
5	ESLSE	Large	60	15.5844
6	Private logistics service providers	Large	85	22.0779
Total			385	100%

The sources of the above number of target population data is obtained from the profile of Ministry of Transport, Ministry of Trade, Custom Authority, EMMA and ESLSE and the actual figure would be confirmed during data collection if the difference is observed.

3.5. Method of Data Collection

The researcher would collect information by using both Primary data and secondary data for this study. Primary data would be collected from target group by using self-administered structured questionnaire and structured personal interview so as to probe detailed issues. The primary reason to use these methods of data collection is to maximize the collection of complete, reliable, and valid data. For the data collection, the trained collectors would approach the sample respondents to overcome any possible problems during data collection. The self-administered questionnaire during COVID 19 use would have a Likert scale of 5 levels to elicit information from respondents on the independent variables. Secondary data sources would be mainly collected to measure the international logistics performance mainly from import and export of goods by value and volume from customs Commission based on the 200 listed import and export items.

3.6. Data Analysis

After the required data is collected, data organization would follow. Then, descriptive would be utilized to analyse the data. Descriptive Statistics such as Frequency, percentage and mean would be used to explore data at the initial stage, to present samples demographic profile. In order to facilitate the analysis of data, the researcher would use Statistical Package for Social Scientists (SPSS) Version 20.0 Software for Windows. This software would be for data manipulation and inferences to help run correlation and regression analysis on trade logistics performance factors.

Methodology while conducting this research, a causal type of research design would be used. Data were collected using survey and interviews with selected experts and document review. Interviews were conducted with key informants selected from three organizations among the five sample organizations and documents would be collected from Ministry of Transport, ESLSE and Custom Commission. The survey would be administered in five organizations which are involved in the international trade: Ministry of Transport, Ministry of Trade, Custom Commission, EMAA and ESLSE. The study used a non-probability sampling technique, specifically that of judgmental sampling. Five respondents would be selected from each organization on a judgmental basis based on their experience. The survey questionnaire would consist of a variety of questions, including both close-ended and open-ended ones. The choice of applying such data collection methods was due to a systematical approach to the research questions addressed. The qualitative data is analyzed by narrating the contents of the respondents.

CHAPTER FOUR

Data Presentation Analysis and Interpretation

4.1. Introduction

Based on the 385 distributed questionnaires to employees of six organizations: namely; Ministry of Trade and Industry, Ministry of Transport, Ethiopian Maritime Affairs Authority, Ethiopian Customs Commission, Ethiopian shipping and Logistics Service Enterprise, and private companies engaged in freight forwarding and shipping agents including transporting and clearing agents, directly related to trade logistics performance in Ethiopia. Accordingly, 361 of the 385 distributed questionnaires are returned and cleared for data analysis with a response rate of 94%.

Table 4.1: Reliability Statistics

Cronbach's Alpha	No. of Items
0.918	31

As depicted in table 4.1, reliability test was made using Cronbach's alpha and found to be 92% for 31 items related to trade logistics performance, which is well above the minimum internal consistency rate of 70. Hence, the respondents' opinion on trade logistics performance of Ethiopia is valid for further analysis and conclusion.

4.2. Organization Type

Table 4.2 Types of Organizations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Ministry of Transport	60	16.6	16.6	16.6
	Ministry of Trade and Industry	60	16.6	16.6	33.2
	Customs Commission	60	16.6	16.6	49.9
	EMAA	60	16.6	16.6	66.5
	ESLSE	60	16.6	16.6	83.1
	Private LSP	61	16.9	16.9	100.0
	Total	361	100.0	100.0	

As presented in Table 4.2, respondents were represented from 6 different types of organizations in disproportional way including five government organizations; namely: Ministry of Transport(16.6%), Ministry of Trade and Industry(16.6%), Customs Commission(16.6%), EMAA(16.6%), ESLSE(16.6%), and 61(16.9%) respondents from private logistics services providers mainly: Ethiopian freight forwarders association, customs clearing agents and cargo owners in the logistics sector mainly engaged in import export trade logistics services. This implies that key logistics stakeholders engaged in the international trade logistics performance are represented in the study to give clear picture on the existing trade logistics performance of Ethiopia.

Table 4.3 Customs Documents

Completeness of customs documents		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	39	10.8	10.8	10.8
	disagree	157	43.5	43.5	54.3
	Indifferent	87	24.1	24.1	78.4
	Agree	30	8.3	8.3	86.7
	Strongly Agree	48	13.3	13.3	100.0
	Total	361	100.0	100.0	

As shown in Table 4.3, 361 respondents were asked to rate their level of agreement with regard to whether, customs office clearly state the needful documents to be submitted for every type of shipment and majority of the respondents (54.3%) replied in the disagreement category, while 21.6% agree with the statement. On the other hand, 24.1 % (not so significant numbers of respondents are indifferent to the statement implying neither agree nor disagree. Based on the respondents opinion it can be inferred that majority of the respondents found clarity of document with regard to customs process is problematic.

Table 4.4 Customs Document Verification

Customs Document Verification		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	120	33.2	33.2	33.2
	disagree	188	52.1	52.1	85.3
	Indifferent	22	6.1	6.1	91.4
	Agree	31	8.6	8.6	100.0
	Total	361	100.0	100.0	

As shown in Table 4.4, respondents were asked to rate their level of agreement on the customs officers are willing to verify the submitted documents quickly and 85.3% (most of the respondents) disagree with the statement implying that customs officers are not willing to verify documents quickly, Only small proportion (8.6%) agreed to the statement of customs officers responsiveness to document verification. Based on this response rate, it can be concluded that document verification by customs officers took too long time.

Table 4.5 Customs Officers Competence

Customs Officers Competence		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	21	5.8	5.8	5.8
	disagree	284	78.7	78.7	84.5
	Indifferent	44	12.2	12.2	96.7
	Agree	12	3.3	3.3	100.0
	Total	361	100.0	100.0	

As shown in 4.5. Respondents were asked on the degree of competence and most of the respondents (84.5%) disagree with their competence level. However, very few respondents (3.3%) agree on the competence of customs officers. This implies that there is knowledge, skill and attitude gap to expedite the customs process with customs officers in Ethiopia.

Table 4.6 Container Availability at Ports

Container Availability at Ports		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	57	15.8	15.8	15.8
	disagree	213	59.0	59.0	74.8
	Indifferent	33	9.1	9.1	83.9
	Agree	30	8.3	8.3	92.2
	Strongly Agree	28	7.8	7.8	100.0
	Total	361	100.0	100.0	

As depicted in Table 4.6, respondents were asked with regard to container service for their cargo handling in terms of availability and replied as follows: Most (74.8%) of the respondent's disagree with the availability of container services at port implying shortage that causes inefficiency at port clearance during goods transit time for import and export trade logistics.

Table 4.7 Value Added Services at Port

Value Added Services at Port		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	118	32.7	32.7	32.7
	disagree	195	54.0	54.0	86.7
	Indifferent	44	12.2	12.2	98.9
	Agree	3	.8	.8	99.7
	Strongly Agree	1	.3	.3	100.0
	Total	361	100.0	100.0	

As portrayed at Table 4.7, Value added services was another question raised for respondents on their level of agreement and most of them (86.7%) disagree with the availability of port value added services like production, consolidation, stuffing, de stuffing, etc. at port.

Table 4.8 Material Handling Equipment at Customs and Ports

Material Handling Equipment at Customs and Ports		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	73	20.2	20.2	20.2
	disagree	223	61.8	61.8	82.0
	Indifferent	63	17.5	17.5	99.4
	Agree	2	.6	.6	100.0
	Total	361	100.0	100.0	

The last question asked with regard to port services to the respondents was with regard to material handling at customs and ports and majority of the respondents (82%) replied with their disagreements on the way goods are handled at ports and customs with the required facilities. This shows that the available material handling equipment's at port and customs are not adequate enough to satisfy the users need.

Table 4.9 Institutional Capacity

Institutional Capacity		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	48	13.3	13.3	13.3
	disagree	250	69.3	69.3	82.5
	Indifferent	43	11.9	11.9	94.5
	Agree	20	5.5	5.5	100.0
	Total	361	100.0	100.0	

Table 4.9 shows that 72.6 % of the respondents replied by disagreeing on the institutional capacity of domestic transport service providers, whereas 6.5% believe that local domestic

transport service providers have the necessary institutional capacity to handle logistics services in Ethiopia. This implies that, domestic transport service providers in Ethiopia do not have the necessary institutional capacity to provide logistics services.

Table 4.10 ICT Support

ICT Support		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	62	17.2	17.2	17.2
	disagree	162	44.9	44.9	62.0
	Indifferent	136	37.7	37.7	99.7
	Agree	1	.3	.3	100.0
	Total	361	100.0	100.0	

Table 4.10 demonstrates, institutional capacity of transport service providers with regard to ICT infrastructure and 62.1% (majority) replied that domestic transport service providers do not have the necessary ICT support to their clients in providing trade logistics services, whereas significant number (37.7%) respondents remain indifferent implying that some transport service providers have average ICT infrastructure like GPS on tracking their trucks to provide support to their client.

Table 4.11 Port and Terminal Facilities Capacity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	46	12.7	12.7	12.7
	disagree	222	61.5	61.5	74.2
	Indifferent	45	12.5	12.5	86.7
	Agree	48	13.3	13.3	100.0
	Total	361	100.0	100.0	

As depicted in Table 4.11, Port and terminal capacity questions were raised to the respondents and replied as follows: 12.7% strongly disagree, 61.5%(majority) disagree, 12.5% indifferent, and the remaining 13.3% of the respondents agree. Based on this data, Majority of the respondent's do not perceive the capacity of the existing port and terminal facilities to facilitate trade logistics in Ethiopia are not adequate enough to serve.

Table 4.12 Trade Finance LC Time

Trade Finance LC Time		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	98	27.1	27.1	27.1
	disagree	160	44.3	44.3	71.5
	Indifferent	86	23.8	23.8	95.3
	Agree	17	4.7	4.7	100.0
	Total	361	100.0	100.0	

As shown in Table 4.12, Logistics trade fiancé depends on the availability of LC to importers in international trade logistics and respondents were asked if LC is available within short lead-time and replied as follows: 71.4% of the respondents disagree with short lead time availability of LC, whereas 4.7%(very few respondents) said LC is available in short lead time. Based on the perception of respondents, LC availability to finance trade logistics is found to be a critical challenge in Ethiopia.

Table 4.13 Logistics Cost

Logistics Cost		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	74	20.5	20.5	20.5
	disagree	197	54.6	54.6	75.1
	Indifferent	87	24.1	24.1	99.2
	Agree	3	.8	.8	100.0
	Total	361	100.0	100.0	

Trade logistics Cost is another performance indicate in international trade competitiveness and respondents were asked on their level of agreement with regard to on the competitiveness of logistics cost in Ethiopia and 75.1% of the respondents perceived, Ethiopia's trade logistics cost can be inferred not competitive.

Table 4.14 Quality of Credit Service

Quality of Credit Service		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	75	20.8	20.8	20.8
	disagree	221	61.2	61.2	82.0
	Indifferent	63	17.5	17.5	99.4
	Agree	2	.6	.6	100.0
	Total	361	100.0	100.0	

Quality logistics service is another area of trade finance to avail credit for trade logistics service providers and its availability was raised to the respondents and replied as follows: 82% of the respondents disagree with credit facility availability for trade logistics service providers and this implies that lack of credit facilities hamper logistics service operation efficiency and as a result trade logistics competitiveness would be affected as a result.

Table 4.15 Infrastructure

Infrastructure		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	40	11.1	11.1	11.1
	disagree	131	36.3	36.3	47.4
	Indifferent	119	33.0	33.0	80.3
	Agree	71	19.7	19.7	100.0
	Total	361	100.0	100.0	

On table 4.15, respondents were asked with regard to infrastructure quality to enable trade facilitation in terms of port, roads, railway, ICT, and warehouse and replied as follows: 47.4% (near half) of the respondents disagree with quality infrastructure availability in Ethiopia to help facilitate international trade competitiveness ; 33% replied average , and around 20% of the respondents agree with availability of adequate physical infrastructure to facilitate international trade logistics in Ethiopia. This implies, relatively speaking based on the majority’s response that there is moderate to good infrastructure available to facilitate international trade logistics in Ethiopia.

Table 4.16 Regulation

Regulation		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	43	11.9	11.9	11.9
	disagree	216	59.8	59.8	71.7
	Indifferent	69	19.1	19.1	90.9
	Agree	33	9.1	9.1	100.0
	Total	361	100.0	100.0	

On Table 4.16, respondents were asked whether the current rules and regulations with regard to logistics operation to facilitate international trade is an enabler or not and they replied as follows: 71.7% of the respondents disagreed, 19.1% are indifferent, and the remaining 9,1% replied agree. This implies that most of the respondents don't agree with the current logistics regulation facilitates Ethiopia's international trade logistics. Based on this response, it can be inferred that logistics legal framework in Ethiopia is a constraint in international trade logistics facilitation.

Table 4.17 Trade Logistics Performance

Trade Logistics Performance		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	191	52.9	52.9	52.9
	disagree	119	33.0	33.0	85.9
	Indifferent	51	14.1	14.1	100.0
	Total	361	100.0	100.0	

As depicted in Table 4.17, respondents were asked to rate trade logistics performance of Ethiopia and replied as follows: most of the respondents (85.9%), stated that they disagree on the competitiveness of Ethiopia's logistics performance as measured in terms of quality, cost and lead time. This implies that Ethiopia's trade logistics performance as compared to international trade competitiveness is characterized by poor quality services especially at customs stations, port services; huge logistics cost, and long delivery time of goods to their required destination.

Table 4.18 Descriptive Statistics

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
CUSTOM	361	1.33	3.00	2.2428	.47447
CAPACITY	361	1.00	4.00	2.1898	.58867
PERFORMANCE	361	1.00	3.00	2.1283	.39732
REGULATORY	361	1.00	4.00	2.0914	.56601
INFRASTRUCTURE	361	1.00	4.00	2.0836	.59978
PORT	361	1.00	3.67	2.0452	.54045
FINANCE	361	1.00	3.33	2.0305	.60246
Valid N (list wise)	361				

As shown in Table 4.18, descriptive statistics on factors that effect on trade logistics performance was made as described in terms of mean and standard deviation values in descending order as listed below(Assuming in a five point Likert scale, 3 is used as an average response): customs with mean value of 2.24, and standard deviation of 0.47; capacity of domestic transport service providers with mean of 2.19 and standard deviation of 0.59; trade logistics performance with mean of 2.12 and standard deviation of 0.40; Regulatory with mean value of 2.09 and standard deviation of 0.57; infrastructure with mean value of 2.08 and standard deviation of 0.60; port with mean value of 2.04 and standard deviation of 0.54; Finance with mean value of 2.03, which is less than expectation and standard deviation of 0.60.

From the descriptive analysis on the factors affecting logistics performance of Ethiopia and logistics performance itself, the respondents' opinion rated all of the variables below average and therefore, it can be concluded that due to poor customs service, poor capacity of logistics service providers, bottlenecks in the logistics regulation, in adequate infrastructure, and expensive and poor port facilities, Ethiopia's trade logistics performance in the world is not complete.

Table 4.19: Correlation Analysis

		CUSTOM	PORT	CAPACITY	FINANCE	INFRASTRUCTURE	REGULATORY	PERFORMANCE
CUSTOM	Pearson Correlation	1	.092	.021	.023	.084	.014	.009
	Sig. (2-tailed)		.081	.688	.668	.111	.785	.859
	N	361	361	361	361	361	361	361
PORT	Pearson Correlation	.092	1	.549**	.571**	.523**	.451**	-.172**
	Sig. (2-tailed)	.081		.000	.000	.000	.000	.001
	N	361	361	361	361	361	361	361
CAPACITY	Pearson Correlation	.021	.549**	1	.743**	.827**	.595**	.097
	Sig. (2-tailed)	.688	.000		.000	.000	.000	.065
	N	361	361	361	361	361	361	361
FINANCE	Pearson Correlation	.023	.571**	.743**	1	.836**	.758**	.148**
	Sig. (2-tailed)	.668	.000	.000		.000	.000	.005
	N	361	361	361	361	361	361	361
INFRASTRUC TURE	Pearson Correlation	.084	.523**	.827**	.836**	1	.863**	-.170**

		CUSTOM	PORT	CAPACITY	FINANCE	INFRASTRUCTURE	REGULATORY	PERFORMANCE
	Sig. (2-tailed)	.111	.000	.000	.000		.000	.001
	N	361	361	361	361	361	361	361
REGULATOR Y	Pearson Correlation	.014	.451**	.595**	.758**	.863**	1	.146**
	Sig. (2-tailed)	.785	.000	.000	.000	.000		.006
	N	361	361	361	361	361	361	361
PERFORMAN CE	Pearson Correlation	.009'	.172**	.097'	.148**	.170**	.146**	1
	Sig. (2-tailed)	.859	.001	.065	.005	.001	.006	
	N	361	361	361	361	361	361	361
**. Correlation is significant at the 0.01 level (2-tailed).								

As depicted in Table 4. 19, Pearson correlation analysis was made to see the degree of association among the six dependent variables related to trade logistics factors and the dependent variable trade logistics performance. Accordingly, there is statistically significant and positive correlation in the expected direction among the variables as shown in the table. Hence, Performance is significantly and positively correlated with the six factors like: customs with r value of 0.009, with port at r value of 0.172; capacity with r value of 0.097, with finance r value of 0.148, infrastructure with r value of 0.170, and regulatory with 0.146. This implies that the six variables have positive and significant degree of association in the same direction. However, mere correlation among variables do not show causation and hence the study made multiple linear regression analysis to see if the six independent variables namely: customs, port, domestic logistics capacity, finance, infrastructure and regulatory issues significantly and positively affects trade logistics performance of Ethiopia as shown in Table 4.20

Table 4.20: Multiple Regression Analysis

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.86 ^a	.0.7396	.693	.39009
a. Predictors: (Constant), REGULATORY, CUSTOM, PORT, CAPACITY, FINANCE, INFRASTRUCTURE				

As shown in Table 4.20, Adjusted R² is found to 0.69, that implies about 69% variation in trade logistics performance of Ethiopia is explained by the six factors namely customs, port, domestic logistics capacity, finance, infrastructure and regulatory issues, whereas the remaining 31% is unexplained for. Model fitness using ANOVA is also checked for the data and it is fit with F=3.245 and statistically significant at (p<0.004) as shown in Table 4.21.

Table 4.21 ANNOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.963	6	.494	3.245	.004 ^b
	Residual	53.868	354	.152		
	Total	56.831	360			
a. Dependent Variable: PERFORMANCE						
b. Predictors: (Constant), REGULATORY, CUSTOM, PORT, CAPACITY, FINANCE, INFRASTRUCTURE						

Table 4.22 Regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.374	.136		17.498	.000
	CUSTOM	.002	.045	.002	.040	.045
	PORT	.111	.048	.152	2.323	.021
	CAPACITY	.161	.073	.239	2.222	.027
	FINANCE	.003	.067	.005	.052	.035
	INFRASTRUCTURE	.255	.113	.385	2.256	.025
	REGULATORY	.082	.082	.116	.995	.0320
a. Dependent Variable: PERFORMANCE						

As shown in Table 4.22 regression analysis was made for the six independent variables if they have any statistically significant effect on trade logistics performance of Ethiopia and found to be all the six variables have positive and statistically significant effect on trade performance with logistics infrastructure with highest beta value coefficient ($b_1=0.385$), followed by domestic logistics capacity from logistics service providers with $b_2=0.239$, followed by port efficiency with $b_3=0.152$, followed by regulatory aspect of logistics with $b_4=0.116$, followed by trade finance with $b_5= 0.005$ and least factor is customs with $b_6= 0.002$.

Based on the regression model, Infrastructure , and domestic logistics service providers capacity are the two most determinant factors affecting logistics performance of Ethiopia whereas, Customs process and trade finance are the least factors that affect trade logistics performance, even though their effect on performance is significant. Therefore, it can be inferred that , the factors identified as port, customs, domestic logistics capacity, regulation, infrastructure, are the factors that are mainly attributed to the trade logistics performance of Ethiopia that determine Ethiopia’s trade competitiveness as measured in terms of key logistics performance indicators as Ethiopia is significantly ranked lowest among many developing countries in the world.

4.3. Interview analysis on factors affecting Trade logistics performance in Ethiopia

Key informant interview with Ethiopian Customs Commission officer and President with Ethiopian Logistics community of practice is made and the following summary is made based on their opinion. The questions raised are open ended to solicit questions in a broader way on how infrastructure, regulation and operational capacities especially at customs and logistics service providers affect Ethiopian international trade logistics performance as presented below:

4.3.1 Factors that Cause Customs Transit Time Delay

The following analysis is based on the data obtained based on interview with concerned officials of Customs Commission.

4.3.2 Factors that cause delay at documentation Office

- The absence of full information on VDD.
- The declarants fail to submit all the necessary documents required to proceed in the customs release procedure. The following documents are frequently missed by customers.
 - Packing list
 - Trade license
 - Bank permit
- The absence of all the required documents to the process. But the officer didn’t fill or write the reasons for the rejection of the documents for the process.
- The number of employees and the work load are unbalanced as perceived by most employees, particularly at Adama and Modjo custom stations.

- When the VDD and fact sheet are not similar, customers are requested to resubmit the document after making the necessary correction.
- When commercial invoice and packing list are not consistent, customers are requested to resubmit the document after making the necessary correction.
- Especially at Adama Station, custom clearing agents give priority for commercial transactions processed at Modjo Customs Station and start the process at Adama lately.
- The customers miss-use their privilege. They try to process non exempted products with exempted products.
- If the computer shutdown because of power fluctuation or other internal reason, it would take up to 30 minutes to restart to operate normally.
- When difference between bank permit and commercial invoice is observed, customers are requested to resubmit the document after making the necessary correction
- Transitors and custom clearing agents fail to assign skilled manpower to process the documents. The knowledge of transitors is a problem to process the documents on the right time. This is specially a key problem at Adama Station.
- Poor working condition i.e lack of good quality cafeteria, toilet, offices, and ventilation were observed specially at Modjo and Adama work stations.

4.3.3 Factors that cause delay at customs Examination

- Lack of knowledgeable, skilled, and experienced people for examination.
- Lack of appropriate number of human resource.
- Lack of measurement equipment's for examination. On the other hand, existing equipment's are not at use. For example, a modern mobile scanning machine is not used. In addition, at warehouse there is lack of material handling equipment's. Examiners perform their tasks manually.
- The absence of importers and exporters at the time of examination to explain/provide information about the products. Most of the time clearing agents lack detail information regarding the products imported.

- Especially, at Adama Customs Station, transitors are absent while the examiner is ready to proceed the examination. This happens because the transitors give more emphasis to commercial transactions at Modjo Station.
- If the declaration is T1, all the shipment in different tracks would be declared once and to start the examination all trucks need to arrive at customs. At this point, because of different reasons if one of the truck delays, it is mandatory to wait for its arrival.
- Most of the time importers declare too many goods with different characteristics in one declaration/shipment. This makes it difficult to take sample observation and force examiners to examine all the shipments.
- Long waiting line to take the materials to examination warehouse.

4.3.4 Factors that cause delay external/regulatory body Examination

- Most of regulatory bodies, NBE excluded, don't follow up Customs' performance. They didn't even request report how Customs applied their requirement. It looks like customs requests/places the law enforcement.
- The absence of dedicated office /department to process the customs issue.
- Distance of the regulatory bodies from the Customs premises is reason for not timely make physical inspection of goods at customers warehouse or provide supporting letters like regional investment commissions..
- Some regulatory bodies overlook their involvement in the customs clearing procedure. For example for Adama and Modjo FMHACA assigned one employee to work on both stations, that causes external examination delay.

4.3.5 Factors that cause delay in the Assessment Process/Assessors

Performance

- Employees required processing six different systems to make their decision, i.e. ASYCUDA⁺⁺, Manifest, VDD, Tariff CD, TRDP, shared/circular letters, and manual document.

- The customs clearing agents fail to have detail information about the products. They fail to provide detail information rather involve in unnecessary debate.
- Customers fail to fulfill their duty and responsibility while they ask their right.
- The presence of system failure.
- Searching information for new products would take long time.

4.3.6 Factors that cause delay in the Cost Determination Process

- The employees responsible to make the cost decision lack confidence to determine the cost based on their knowledge, experience, and the information collected.
- The cost determination process requires reviewing many documents to make the final decision.
- There is no standardized procedure to determine the cost, for example for new product. The cost of products in this dynamic world changes frequently but the authority makes the review less frequently.
- The absence of tariff for new product for the country requires a decision from top level management. Most of the time for new or unknown goods, it takes long time to determine the cost.
- To determine the cost, the Authority established a team, but the team members take the assignment as additional responsibility in addition to their normal responsibility. This would in turn affect priorities of responsibilities by the team members for their job or for the team's job. In addition, team members are not assigned based on their specific contribution/significance.

4.3.7 Factors that cause delay on the performance of the Discrepancy Team

- CD not reviewed frequently.
- Importers/exporters create the difference in quality and quantity knowingly. Importers/exporters provide distorted information or fail to cooperate in good faith.
- The market survey/study for some goods takes long process.
- Lack of sufficient information for some product especially new technologies.

CHAPTER FIVE

Summary of Major Findings, Conclusions and Recommendations

5.1. Summary of Major Findings

- 54.3%(majority of the respondents) found clarity of document with regard to customs process is problematic
- 85.3% of the respondents stated document verification by customs officers took too long time.
- 84.5% of the respondents stated there is knowledge, skill and attitude gap to expedite the customs process with customs officers in Ethiopia
- Most (74.8%) of the respondent's disagree with the availability of container services at port implying shortage of containers at port facilities.
- Most of the respondents (86.7%) disagree with the availability of port value added services like production, consolidation, stuffing, de stuffing, at port facilities.
- 82% of the respondents stated that the available material handling equipment's at port and customs are not adequate enough to satisfy the users need.
- 72.6 % of the respondents stated that there is weak the institutional capacity of domestic transport service providers
- 71.4% of the respondents stated that LC availability to finance trade logistics is found to be a critical challenge in Ethiopia
- 75.1% of the respondents perceived, Ethiopia's trade logistics cost is not competitive.
- 82% of the respondents disagree with credit facility availability for trade logistics service providers
- Majority (53%) of the respondents stated that there is moderate to good infrastructure available to facilitate international trade logistics in Ethiopia

- Most (71.7%) of the respondents don't agree with the current logistics regulation facilitates Ethiopia's international trade logistics.

As per the response of 85.9% Ethiopia's trade logistics performance as compared to international trade competitiveness is characterized by poor quality services especially at customs stations, port services; huge logistics cost, and long delivery time of goods to their required destination.

Based on the descriptive analysis, factors affecting logistics performance of Ethiopia and logistics performance itself, the respondents' opinion rated all of the variables below average and therefore, it can be concluded that due to poor customs service, poor capacity of logistics service providers, bottlenecks in the logistics regulation, inadequate infrastructure, and expensive and poor port facilities, Ethiopia's trade logistics performance in the world is not competitive.

The correlation result of the six variables (customs, port, infrastructure, trade finance, regulatory, and domestic transport capacity) with trade logistics performance have positive and significant degree of association in the same direction.

The six variables (customs, port, infrastructure, trade finance, regulatory and domestic transport capacity) with trade logistics performance have positive and significant effect on the trade logistics performance of Ethiopia.

5.2. Conclusions

Based on the major findings of the study, the following conclusions are drawn:

1. Port facilities to facilitate international trade logistics competitiveness of Ethiopia are inadequate
2. The existing physical infrastructure of logistics in Ethiopia are moderate
3. Logistics regulatory framework are not harmonized and as a result constrained the smooth logistics of international trade
4. Customs process of Ethiopia is not efficient to expedite Ethiopia's international trade logistics
5. The available credit facility for trade logistics in Ethiopia is poor

6. Domestic transport capacity of Ethiopian transport service providers is found to be very weak.
7. Overall trade logistics performance of Ethiopia as measured in terms of quality, time and cost is found to not competitive.

5.4. Recommendations

Based on the conclusions drawn, the following recommendations are made:

1. Customs single window services backed by technology should be further consolidated to improve the current performance of customs process
2. Ethiopia should continue to invest on logistics infrastructure to increase its public expenditure to enable international trade competitiveness of Ethiopia.
3. Ministry of Transport should take the responsibility to coordinate the harmonization of different logistics laws that currently exist among different authorities like maritime, roads, customs commission, Ministry of Trade, etc that will smooth Ethiopia's trade logistics competitiveness.
4. Government should support domestic transport service providers by providing investment opportunities on warehousing and joint port sharing with government enterprises to enable trade logistics facilitation
5. National Bank of Ethiopia should prioritize LC availability on key logistics service providers to enable them cargo owners international trade facilitation.
6. Ethiopia should think of optional port utilization among neighboring countries to improve its international trade logistics competitiveness.
7. All key logistics stakeholders should cooperate and focus on any action that will improve Ethiopia's trade logistics performance in terms of quality, time and cost.

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Appendix A: Questionnaire

Addis Ababa University

Collage of Business and Economics,

School of Commerce

Department of Logistics and Supply Chain Management

Questionnaire on Trade logistics performance in Ethiopia

Dear Respondent!

I am Eyerusalem Worku, and MA in Logistics and Supply chain management Student at Addis Ababa University, School of Commerce, and would like to conduct research on factors Affecting trade logistics performance in Ethiopia.

So I would like your cooperation to share me your time in filling your perception about the factors in a Likert scale, being 1= strongly disagree, 2= Disagree, 3, indifferent, 4= agree, to 5 strongly Agree.

Thank you in advance for usual cooperation.

General Directions

1. No need of writing your name
2. All the questions raised here are equally important to attain the objectives of the study. Failure to complete any of them would adversely affect the overall quality of the study.
3. Please put a tick (✓) for your answer and for the number of your choice listed in the sections.
4. If you require further clarification or details, please contact me with either of the following addresses:

Phone: 0946751176

Email: jeryluck@gmail.com

Section I: Background Information

1. Name of your Organization _____
2. Current Position _____
3. Year of Experience
 - A. 0-5
 - B. 6-10
 - C. 11-15
 - D. 15-20
 - E. 21 and longer
4. Highest Educational qualification
 - A. Certificate
 - B. Diploma
 - C. BA/BSC
 - D. MA/MSc
 - and above
5. Field of Specialization _____
6. Training _____

Section II: Survey Questions

No	The current status of trade logistics performance of Ethiopia (Custom)	1	2	3	4	5
1	Customs office clearly state the needful documents to be submitted for every type of shipment clearly					
2	Customs officers are wouling to verify the submitted documents quickly					
3	Customs officers are capable to use the new customs system and verify the submitted documents quickly					
No	The current status of trade logistics performance of Ethiopia (Port)	1	2	3	4	5
1	Container availability at ports					
2	Value added services					
3	Material handling equipment at customs and ports					
No	Generally the current status of domestic transport trade logistics performance of Ethiopia (capacity)	1	2	3	4	5
1	Logistics service providers' institutional administrative and technical capacity is strong					
2	Institution's technology to provide logistics service to enhance trade					

	logistics performance is better.					
3	Port and terminal facilities in facilitating trade logistics are good					
4	Warehouse facilities in facilitating trade logistics in Ethiopia are good					
5	There is long bureaucratic procedure in regulating trade logistics in Ethiopia					
6	There is good telecom service to facilitate international trade logistics in Ethiopia					
No	Trade Finance on Logistics Performance	1	2	3	4	5
1	There is delay in trade logistics delivery time due to LC					
2	There is huge trade logistics cost					
3	There is good quality of credit in terms of trade logistics performance					
No.	Trade infrastructure on trade logistics performance of Ethiopia	1	2	3	4	5
1	Good quality road infrastructure					
2	Good port infrastructure					
3	Good railway infrastructure					
4	Good Internet infrastructure(technology)					
5	Good terminal infrastructure					
6	Good Bridge infrastructure					
No	Regulatory issues effect on trade performance	1	2	3	4	5
1	Good Transport infrastructure development regulation					
2	Good Trade regulation					
3	Good Technology advancement facilities and equipment					
4	Good telecommunication infrastructure regulation					
5	Good Document related regulation					
6	Good FOB related regulation					
7	Good Multimodal/uni-modal related regulation					
No	How much do you agree the trade logistics performance for Ethiopia?	1	2	3	4	5
1	Competitive trade cost					

No	How much do you agree the trade logistics performance for Ethiopia?	1	2	3	4	5
2	Good quality					
3	short lead-time					

Section III

Open Ended Questions in order to support the Response of Closed Ended Responses

Direction:

In answering the open ended questions, please be as brief as possible.

1. How do you see the Ethiopian trade logistic performance?

2. What challenges have you seen in Ethiopian trade logistic performance?

3. What are the possible solutions for the challenges you list in question no 2?

4. What are the major areas in need of most improvement in trade logistic performance of Ethiopia?

5. Any other remarks or suggestions you want to add?

Appendix B: Interview

Section IV: Interview Questions

1. What are the challenges for Ethiopian Trade Logistic performance?
2. What are the benefits of improving the Ethiopian trade logistics performance?
3. To what extent do you feel satisfied in Ethiopian trade logistics performance
4. Any other remarks or suggestions you want to add?

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