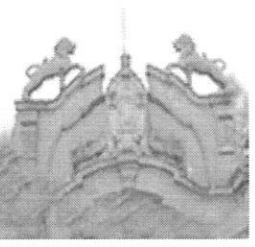
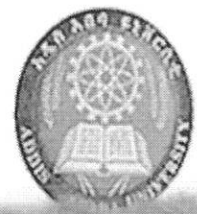


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ADDIS ABABA UNIVERSITY
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION
DEPARTMENT OF ACCOUNTING AND FINANCE
(GRADUATE PROGRAM)

Challenges of Customs on Trade Facilitation in Ethiopia:

The case of Customs clearance in ERCA.

By:

Teweldeberhan W/gebriel GSR/0212/02

June, 2011

Addis Ababa

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*A Thesis Submitted to the School of Graduate Studies of Addis Ababa
University in Partial Fulfillment of the Requirements for the Degree of Master
of Science in Accounting and Finance*

BY

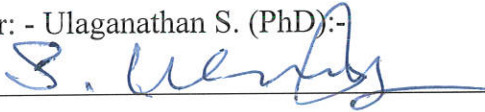
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June 2011
Addis Ababa

Statement of certification

This is to certify that Teweldeberhan W/gebriel has carried out his research work on the topic entitled "Challenges of Customs on Trade Facilitation in Ethiopia: The case of Customs clearance in ERCA". The work is original in nature and it's suitable for submission for the reward of the Masters Degree in Accounting and Finance.

Advisor: - Ulaganathan S. (PhD):-

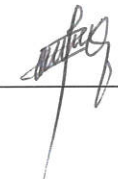


Statement of Declaration

I, the undersigned, declare that this study is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

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Examiner: Dr. Venkatesh Ponnala, Signature [Signature] Date 22/06/2011

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Acronyms

ARTNeT	Asia-Pacific Research and Training Network on Trade
ASYCUDA	Automated System for Customs Data
BDTI	Bureau Direct Trader Input
COMESA	Common Market for Eastern and Southern Africa
CPC	Customs Procedure Code
CRO	Committee on Rules of Origin
DTI	Direct Trader Input
EAC	East Africa Community
ECLAC	Economic Commission for Latin American and the Caribbean
ERCA	Ethiopian Revenue and Customs Authority
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
HQ	Head Quarter

HS	Harmonized System
ICT	Information Communication Technology
IT	Information Technology
MOFED	Ministry of Finance and Economic Development
MTI,	Ministry of Trade and Industry
MTSE	Maritime and Transit Enterprise
OECD	Organization for Economic Co-Operation and Development
RDTI	Remote Direct Trader Input
ROO	Rule of Origin
SPS	Sanitary and Phytosanitary
SPSS	Statistical Package for Social Science
SRAs	Standardized Risk Assessments
TBT	Technical Barriers to Trade
TCRO	Technical Committee on Rules of Origin
UN/CEFACT	United Nations Center for Trade and Electronic Business

UNCTAD	United Nation Conference on Trade and Development
UNDP	United Nations Development Program
UNECE	United Nations Economic Commission for Europe
UNESCAP	United Nation Economic and Social Commission for Asia and the Pacific
VAT	Value Added Tax
Ver	Version
WCO	World Customs Organization
WTO,	World Trade Organization

Abstract

This study examines the challenges of Customs on trade facilitation, specifically the Customs clearing process in Ethiopia. The study focuses on assessing to identify problems and the reason behind those problems, which have negative contribution on the time length of clearing process.

The study adopts a mixed method research approach to address the specific objectives that come out from the review of the existing literature. Particularly, the study particularly used survey methods, and in-depth interview together with documentary analysis.

The result of this methodology shows that the Customs clearing time taken for a document is quite long in Ethiopia, which adversely affects the trade facilitation. Moreover, the cause for delays of clearing process has also identified and the reasons behind these problems are also indicated. The thesis forwards a series of measures taken by the authority (ERCA), importers and clearing agents. The measures to be taken by the authority, include minimize Customs procedures, recruit additional employees, implement the existing procedures uniformly and avoid corruptions vulnerability. On the other hand measures to be taken by the importers and agents, building their capacity, submission of true information regarding to cost and origin of goods, avoid the need of tax evasion and unfair advantages and ready to cooperate with the authority.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

This paper examines the challenges and opportunities of customs on trade facilitation. It focuses more on customs clearing time length in Ethiopian context.

As per Widdowson, (2006), the customs has been described for a century as one of ‘gate keeper’, with customs authorities representing a barrier through which international trade must pass, in an effort to protect the interests of the country. The essence of this role is reflected in the traditional customs symbol, the portcullis, which is a symbolic representation of a nation’s ports the gates through which international trade must pass.

McLinden (2005) stated that:

“Customs is the oldest of governmental institution established to generate income for government in the form of taxation. Nevertheless, the roll of customs becomes more important and more complicated due to:-Tax base become widened, the prevalence of illegal trade, and the need for balance between trade facilitation and control. All countries have in place some customs controls for revenue generation, domestic economic interests, and national security purposes. While there are

similarities between countries (like the universal need for shipment documentation, including commercial invoices and Bills of Lading) there are local, specific requirements that have to be addressed. Broadly, customs clearance will be defined as the set of functions undertaken by a national customs authority, which include, but are not limited to processing of import, export, and transit declarations, assessment of origin, value, and classification of goods, collection and processing of duties and fees and Physical inspection, examination, and release of cargo.”

As per the revised Kyoto convention(1999), Customs is defined as the government service which is responsible for the administration of Customs law and the collection of duties and taxes and which also has the responsibility for the application of other laws and regulations relating to importation, exportation, movement or storage of goods.

Customs clearance in the developing world is in rapid evolution. The development in customs can be described in three stages. In the first, the customs authority concentrates on physical inspection and paperwork, in the second, the customs authority works to reduce fraud and maximize revenues, and in the third, the customs works to facilitate trade through internal checks, process management and the development of electronic data exchange (Appels and Henry, 1998). Therefore, trade facilitation is one of the focal point that customs authority concentrated on among the others.

The concept of trade facilitation is receiving unprecedented attention and is at the heart of numerous initiatives within the customs world. Trade facilitation has become a substantive item within WTO trade round negotiations, it is frequently referred to in supply chain security initiatives, and is a feature within many customs modernization programs. Trade facilitation is also a significant item within wider aid-for trade and capacity building initiatives. The term ‘trade facilitation’ is largely used by institutions that seek to improve the regulatory interface between government bodies and traders at national borders (Grainger, 2008).

Trade facilitation is defined by the WTO (1998), and Buyonge and Kireeva, (2008), as “The simplification and harmonization of international trade procedures” where trade procedures are the ‘activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.

Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximize efficiency while safeguarding legitimate regulatory objectives (Grainger, 2007).

The United Nations Economic Commission for Europe (UN/ECE) also defined it as a comprehensive and integrated approach to reducing the complexity and costs of the trade transaction process, and ensuring that all these activities can take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standard and best practice.

Trade facilitation is the gradual removal of the “invisible” barriers to trade. Specifically, it is the simplification and harmonization of international trade procedures, communicating and processing data required for the movement of goods in international trade (WTO/UNCTAD, 2001).

Generally, there are two definitions narrow and broad for trade facilitation. The narrow definition relates to customs formalities and procedures, simplification, harmonization and automation of trade procedures in particular the import export and transit procedures applied by the customs and other agencies to control the cross border movements of goods. The broad definition encompasses all the formalities and procedures related to international trade and the transportation of goods and services across boarder, including the contractual, transactional and payment issues. However, for the purpose of this study, the narrow definition will be used.

Common to all definitions of trade facilitation is the desire to improve the trade environment and reduce or eliminate any transaction cost between business and government. In its Recommendation No 4 UNECE (UN/CEFACT, 1974) is quite explicit on the reformatory trade facilitation objectives, stating that the trade facilitation programme ought to be guided by the "... simplification, harmonization and standardization [of trade procedures] so that transactions become easier, quicker and more economical than before ...". Simplification is "... the process of eliminating all unnecessary elements and duplications in formalities, process and procedures ...; harmonization is the alignment of national formalities, procedures, operations and documents with international conventions, standards and practices; [and] standardization is ... the process of developing internationally agreed formats for practices and procedures, documents and information." Implied in this statement is also the modernization of cross-border operations through use of information and communication technologies that rely on standardized and harmonized data. As such, trade facilitation is at once a political, economic, business, administrative, technical and technological issue (Butterly, 2003).

Africa suffers from the highest average customs delays in the world, 12 days on average. Estonia and Lithuania require one day for customs clearance; Ethiopia averages 30 days as cited in the (Buyonge and Kireeva, 2008) Journal Article. However, the journal article did not show where these lengths of time release took from. For instance in the Ethiopian

case, it did not indicated whether clearance time is before or after the re-organization of the authority. So the reliability of the average time is questionable and of course needs further study.

The length of time release plays a negative or positive roll on Trade facilitation. A short customs clearing time release avoids the serious bottlenecks that impede trade facilitation. On the other hand, long time release indicates the customs administration is not equipped with competitive human and technological resources and is inefficient in facilitating import and export goods. This in turn, challenges the nation to compete in the international trade.

1.2. Research Problem

Customs is a governmental agent that is responsible to; collect revenue in the form of tax, trade facilitation, and border protection in every country of the world many scholars agreed that a country could not exist without having customs; nevertheless, the organizational structure may be different. Although there are many studies conducted in relation with customs and trade facilities in different corners of the world, the researcher is unaware of similar studies in Ethiopian case as far as the researcher's knowledge is concerned. Many reforms have been taken by the Ethiopian government regarding to customs administration to facilitate trade especially import and export activities, increasing government revenue as well as border protection.

At the same time, the researcher observes through different mass media that importers and exporters claim on long time release. Therefore, this indicates that still there are unsolved problems concerning to customs service, especially customs clearance process, irrespective of the government's effort, which adversely affect business community, government and the public at large.

1.3. Objectives of the Study

1.3.1. General Objective

The general objective of this concurrent mixed method approach was to determine where the Customs process of clearing goods facing problem, the type of problems, and the reasons for these problems.

1.3.2. Specific Objectives

- To assess where the customs clearance delay takes place..
- To identify what the problems are and the reason behind them.
- To examine the application of the existed laws, regulations and procedure as stated on the paper.
- To recommend where improvements may be made in contracting and receiving to reduce the risk of customs clearance delays.

1.4. Significance of the Study

The significant of the study is to play a role in including the real cause behind the problems and their effects on the trade society, on government itself and on import export activities at large.

More over the study might be invaluable in any endeavor to modify customs related legislations; simplify and harmonize customs process; provide training to customs officers; resolve difficulties with trade entities and other public institutions i.e. agents involve in the customs clearance process.

Finally, the outcome of this study can offer an opportunity for further study related to customs and trade facilitation in the future.

1.5. Limitation of the Study

The major limitation of the study was time and finance constraints. To carry out these types of research, obviously time is the most invaluable input and of course budget is the other fundamental issue. The other challenging case was getting data from the authority, officials and employees were not voluntary to provide the available data the reason was confidentiality, but unsatisfactory. So in conducting the thesis a lot of ups and downs were there.

1.6. Scope of the Study

The study was focused in Addis Ababa Air Port Customs branch, and Kality customs station, due to scarce resources and time constraints. Nevertheless, the remaining customs control station accounts less than 20% of the total import and export of the country so the defectiveness of the data quality is not as such serious. Because the remaining, that is above 80% of the import and export of the country is, pass through the two customs control station under investigation. Moreover, the study issues were stick to the customs clearance process particularly, from the time of restructuring of the authority which was 2009-2011.

1.7. Organization of the Paper

The study assessed problems and reasons those delays Customs clearing process in Ethiopia in case of ERCA. In due process, the reports of the paper logically organized in the following manner. The research paper divided in to five chapters. Chapter one gives the background information and statement of the problem. It sets out general and specific objectives, scope of the study, significance of the study, limitations of the study and organization of the entire paper. Chapter two also discusses the key concepts that were used in the paper to place the problem in a broader perspective literature. Chapter three

contains Methodology of the study. Chapter four provides data presentation and analysis. Finally, chapter five deals with conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

In this chapter, knowledge of Customs has summarized based on different publication. Moreover, some authors work related to Customs, Customs clearance process, and trade facilitation that have been undertaken on different countries was also reviewed.

2.1. Knowledge of Customs

The World Customs Organization (WCO), established in 1952, is an independent intergovernmental organization with 177 Members. Its mission is to enhance the effectiveness and efficiency of Customs administrations in the areas of compliance with trade regulations, protection of society and revenue collection, thereby contributing to the economic and social wellbeing of nations (www.wcoomd.org).

Customs contributes significantly to protecting the security and safety of citizens, as well as to increasing competitiveness through efficient, targeted controls and the facilitation of legitimate trade (ec.europa.eu), Taxation and Customs Union.

2.1.1. The Role of Customs

The responsibilities of Customs administrations vary from country to country, and are often the subject of regular review and modification to ensure their ongoing relevance in a constantly changing world.

Traditionally, however, Customs has been responsible for implementing a wide range of government policies, spanning areas as diverse as revenue collection, trade compliance and facilitation, interdiction of prohibited substances, protection of cultural heritage and enforcement of intellectual property laws. This breadth of responsibility, reflects the fact that Customs authorities have long been entrusted with administering matters for which other government ministries and agencies have policy responsibility, such as health, agriculture, environment, trade statistics and in some cases, immigration. This is generally achieved through the implementation of a diverse range of service level agreements, with Customs having regulatory responsibilities stem from the more traditional Customs role of collecting duties on internationally traded commodities, a common extension of which is the collection other forms of tax, such as value added tax (VAT) and excise duties.

In many developing and least developed countries, import duties and related taxes represent a significant proportion of the national revenue. Because of this, the focus for their Customs authority is, understandably, revenue collection.

In developed countries in the other hand, with relatively little reliance on imports as a source of government revenue, there is an increasing focus on border protection, with particular emphasis on the enforcement of import and export prohibition and restrictions, including those arising from free trade agreements. Nevertheless, the current trade towards global free trade and the recent heightening of international terrorism concerns have seen border security emerge as a priority across all economies (Widdowson, 2007).

2.1.2. Customs Modernization

Customs modernization refers to comprehensive streamlining of processes, formalities, procedures and documents handled by an improved legal and regulatory framework, the optional application of IT solution, and the implementation of human resource management policy.

Customs modernization relates to the full range of Custom operations. Its main objective is to ensure that Customs administrations constantly keep pace with developments in international trade, whether of a technological, legal or economic nature. This modernization programs for Customs service's seeks to develop a competent and efficient administration, determine the optimum management of staff and available technical resources, and instill a culture of good governance and integrity to facilitate the crucial role played by Customs in the global trading system.



The Customs modernization program is accelerated by the parallel introduction of a customized capacity building plan to enable a Customs administration to implement the necessary changes to its management and operational environment, (World Bank, 2008).

2.1.3. Automation in Customs

Economic Commission for Latin American and the Caribbean (ECLAC, 2006) stated that, automated system in Customs provides one of the most useful tools for facilitation of international trade procedures. As a complement to Customs reform, automation becomes a catalyst for modernization of the Customs and a stimulus for increased use of information and communications technology (ICT) by other governmental department and private sector participate in an automation initiative.

Automation system in Customs, results in increasing transparency in the assessment of duties and taxes. Moreover, substantial reduction in Customs clearance times, predictability, leading of direct and indirect saves for both government and traders. The higher the level of automation of Customs procedure in a country is the greater the possibility of detailed inspections of detections fraud and firm action including prosecution in court (Buyonge and Kireeva, 2008).

The most ICT system used in Africa and Asia is that of ASYCUDA++, which classifies imports depending on their risk under Green, Yellow and Red (Kafeero, 2009).

2.1.4. Customs Procedures

The term Customs procedures refers to the treatment of goods by Customs administrations which is 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.

From a trade facilitation perspective, the world Customs Organization's (WCO) international convention on the simplification and Harmonization of Customs procedures, that was extensively revised and adopted in June 1999. And commonly known as the revised Kyoto convention, is acknowledged as the main international instrument covering trade facilitation as it pertains to the role played by Customs administrations in the global trading system (www.gfptt.org ,Global facilitation partnership for Transportation and Trade).

According to the WCO guide of time measurement(2002), in the modern business environment of just in time production and delivery it has become ever more important that traders are guaranteed fast and predictable release of goods. Since Customs is the foremost agency at the border and plays a prominent role in the release of goods, Customs should strive to reduce the complexity of clearance procedures and to limit their information that is really necessary.

Moreover , modern business administration have recognized that streamlining and simplifying clearance procedures is of benefit to their importers, exporters and their national economies. To achieve the goal of offering efficient and effective clearance procedures, while continuing to maintain their traditional duties of revenue collection and enforcement activities, Customs administrations are increasingly introducing simplified procedures. In order to ensure that these are applied in an effective manner, the procedures have to be reviewed and updated at regular intervals. In addition, to determine the level of effectiveness of normal Customs operations as well as that of simplified procedures, many Customs administrations conduct regular reviews and audits to assist them in streamlining their operations.

2.1.5. Customs Valuation

In the majority of cases, the valuation Agreement forms the basis for the customs values declared to customs administrations. The Agreement establishes a customs valuation system, which base the customs value primarily on the transaction value of imported goods, i.e. the price actually paid or payable for the goods when sold for export to the country of importation with certain adjustments.

Five alternative hierarchical valuation methods are also contained in the Agreement and applied in cases where the transaction value of imported goods cannot be established. The world customs organization (WCO) valuation committee to administer the technical

aspects of the Agreement through its Technical committee on Valuation while national customs administrations are responsible for the assessment and collection of customs duties and , in many cases, internal taxes too.

As the Agreement provides more predictability, stability and transparency for the trading community, it is regarded as a major contributor towards the facilitation of international trade while insuring compliance with national laws and regulation (www.gfptt.org, Global facilitation partnership for Transportation and Trade).

2.1.6. Harmonized System

The Harmonized (HS), regarded, as “common language of international trade, is the world customs organization’s (WCO) international multipurpose product nomenclature.

The HS serves as a basis for a variety of purposes. These include customs tariffs, the collection of international trade statistics, trade policy, the application of rules of origin, the monitoring of controlled goods, the application of quota controls, the levying of internal taxes and freight tariffs, the collection of transport statistics, and economic research and analysis. It consists of a comprehensive classification system in which all commodities can be classified and identifies by a 6-digit harmonized system (HS) code. The HS is subject to constant review and is updated every four to six years.

The latest version of HS has entered in to force on January 2007, known as HS 2007; it contains 3554 sets of amendments that respond to day’s security, commercial and

technology developments. These amendments were largely driven by changes in trade patterns and practices, technological progress. It is necessary to clarify texts to ensure uniform interpretation, and the need to make provision for specific social and environmental developments and concerns. Given that the HS is also used extensively for statistical purposes purposed nationally and internationally, 2007 version will influence this area of activity as certain code numbers have been added, the deleted or renumbered because of the amendments. It should be emphasized that the amendments to the HS Nomenclature should not affect applied Customs duty rates, which, while not a WCO matter, are of concern the WTO and its Members particularly with respect to tariff concessions. This whole package of amendments with ensures that the HS remain up to date for the years to come despite rapidly changing product features. Currently used by more than 200 countries and customs or Economic Unions across the globe, 124 of which are contracting practices to the HS convention.

This WCO instrument that regulates almost 98% of world trade is the only global goods nomenclature with a truly international appeal.

The HS is a major contributor towards the synchronization of customs and international trade facilitation efforts (www.gfptt.org ,Global facilitation partnership for Transportation and Trade).

2.1.7. Revised Kyoto convention

Since its inception in 1952, the world customs organization (WCO) has been working to develop modern principle that would buttress effective customs administrations by examining customs policies and practices worldwide, worldwide, cooperating with its member's administrations, and working with trade immunities and international agencies. The early efforts for simplifying and harmonizing customs procedures culminated in the Kyoto convention, which was adopted by the WCO in 1973 and entered in to force in 1974. globalization, rapid transformation of international trade patterns, and advance in information technology (IT) since then have compelled the WCO and its members to review of the convention. The resultant revision of the convention, known as the revised Kyoto convention reflects that the economic and technological changes and incorporates best practice of member administration (Mikuriya, 2005).

The international convention on the simplification and Harmonization of customs , a revised version of which was adopted in June 1999 and now popularly known as the revised Kyoto convention , is one of the major international instruments developed by the world Customs organization (WCO). Is recognized as an international standard, and used as a benchmark, for the global customs community. The revised Kyoto convention provides for the simplification, harmonization and modernization of customs procedures. This convention contains modern customs formalities and procedures, harmonized

customs documents for use in international trade and transport, and provides for the use of risk management techniques and the optimal use of information technology by customs administration. Indeed, important trade facilitation concepts such as audit based controls and authorized trading are major elements of the convention by specifying the application of simple but efficient.

Procedures and stating minimum and maximum levels of facilitation and control for import, export, and transit of goods including the movement of passengers and means of transport, the revised Kyoto convention is regarded as the blueprint for trade facilitation

Core principles of revised Kyoto convention

- ❖ Higher transparency and predictability
- ❖ Standardized and simplified document
- ❖ Minimum request and intervention
- ❖ Divorce of release from intervention
- ❖ Use of risk management
- ❖ Specially simplified procedures for authorized traders
- ❖ Maximum use of information technology
- ❖ Cooperation with other agencies and foreign counterpart
- ❖ Partnership with the trade, (www.gfptt.org, Global facilitation partnership for Transportation and Trade).

2.1.8. Customs Clearance

The WCO revised Kyoto convention, defines customs clearance as “the accomplishment of the customs formalities necessary to allow goods to enter home as to be exported or to be placed under another customs procedure”. And release as “the action by the customs to permit goods undergoing clearance to be at the disposal of the person concerned.

Traditionally, customs authority do not release goods until all issues related to the transactions are resolved and duties are paid; thus as problems with goods classifications and valuation, missing documents, or appeal process against decision. Such delays have a negative impact on trader’s supply chain as the goods are uphold in a customs controlled facility are not at the disposal for the trader (UNCTAD ,2006).

As per the UNCTAD (2008), in many countries it is still normal not to release goods unless all issues are resolved and duties and taxes are paid. These delays in actually receiving the goods which are caused by Customs clearance procedures are a great concern for companies especially SMEs faced with increasing demand pressures in today's markets.

Delays can have various reasons such as e.g. valuation problems but also others which currently are not regulated by WTO rules including classification problems, tariff heading determination, missing documents, lack of certificates of origin or health certificates, or

cumbersome payment procedures. A lot of countries have resolved this problem by allowing the release of goods prior to the actual payment and are collecting duties and taxes in separate procedures, independent of the final clearance.

Proposals on the release of goods in the event of appeal intend to avoid delays in situations where an appeal is pending. They propose that traders be allowed to leave with Customs financial guarantees for the payment of Customs duties until a disputed issue under appeal is resolved. These guarantees could be in the form of a surety or a financial deposit. They would allow Customs to satisfy any claims in case the trader does not meet his obligations. Thus, Customs would no longer need to hold back the goods themselves, and delays in their release and delivery would be avoided.

2.1.9. Risk assessment methods

Risk managements: Logical and systematic method of identifying, analyzing managing risks. Risk management can be associated with any activity, function or process within the organization and enables the organization to take advantage of opportunities and minimize potential losses.

Customs enforcement has developed drastically over the last to keep pace with the tremendous increase in international trade and transport, the growing awareness of transnational organized crime and, more recently, the threat of terrorism.

This led to an increased awareness in customs administrations that national and international co-operation is essential this co-operation is based to a large degree on the sharing of information between customs services. More recent, the value of sharing information with the business sector and other law enforcement agencies has also been recognized, as being of prime importance.

All information is the basis for risk management, now generally regarded as the best approach to customs controls in the current international trading environment. Enhanced screening of pre arrival information is the most effective means of promoting the flow of legitimate trade while in identifying high-risk containers, cargo and passengers for examination. While 100% examination is impossible with present resources, it is feasible for customs services to guarantee that virtually all data will be adequately screened for indications of risk shipments for examination prior to goods arriving at a port of entry.

It is always important to remember that although it is possible to define common risk indicators and profiles; it is not possible to specify universal coefficients for the risk indicators.

Because risks and threats change depending on several variables, just as laws, criminal organization, importers and industries do. Furthermore it is important to emphasize that the presence of the risk indicator does not necessarily indicate a high-risk shipment or person

rather; a combination of several indicators the probability of the presence of risk. Core elements, a requirement approach to address threats to the trade supply chain.

- ❖ Standardized risk assessments (SRAs) are an important part of the customs intelligence function and contribute to the efficient and effective functioning of customs services, which in turn benefits international trade facilitation efforts (www.gfptt.org Global facilitation partnership for Transportation and Trade).

2.1.10. Rules of Origin

These are specific provisions known as “origin criteria” that are developed from principles established by national legislation or international agreements and which are applied to determine the origin of goods. Rules of origin (ROO) can be both non-preferential and preferential.

Generally speaking, when we talk about non-preferential ROO, we normally referred to those ROO that will be established under the terms of the WTO agreement on rules of origin and which will be applied equally by all WTO members.

- ❖ Preferential ROO on the other hand normally refer to those ROO laid down in bilateral or multilateral agreements signed between countries, economic unions, etc and which are only applied to goods moving between the contracting parties of such agreements.

These goods are in fact given what is known as “preferential treatment”. Preferential ROO also play a very important part in international trade owing to the proliferation of regional trading agreements, of which there are now more than 160 in force world-wide (www.gfptt.org Global facilitation partnership for Transportation and Trade).

The World Customs Organization’s (WCO) Technical Committee on Rules of Origin (TCRO) was established at the request of WTO’s Committee on Rules of Origin (CRO) to undertake the technical work emanating from the work program to harmonize non-preferential ROO provided for in the WTO Agreement.

The results of the technical review undertaken by the WCO were submitted to the WTO in 1999 within the time frame laid down by the CRO. Now, the work program for the harmonization of ROO is still in progress at the WTO with the WCO’s technical review forming the basis of discussions between WTO members.

- ❖ Customs officials and traders may face a significant task in implementing the Non-preferential Harmonizing Rules of Origin. Once they are operational, however, in the long run, the benefits of harmonizing will be widely appreciated in the same way as other international trade-related instruments that promote and encourage harmonization, indeed, harmonization means that both the private and public sector will be in a position to anticipate the clear and predictable origin outcome of goods. This will contribute to a more stable trading environment and

facilitate the movement of goods around the World (www.gfptt.org), Global facilitation partnership for Transportation and Trade).

As indicated in the World Customs Organization (WCO) guide to “time measurement (2002) for the release of goods”, in the modern business administration’s has recognized that streamlining and simplifying clearance procedures is of benefit to their importers, their national economics. To achieve the goal of offering efficient and effective clearance procedures, while continuing to maintain their traditional duties of revenue collection and enforcement activities, customs administrations are increasingly introducing simplified procedures. In order to ensure that these are applied in an effective manner, the procedures have to be reviewed and updated at regular intervals.

In addition, to determine the level of effectiveness of normal Customs operations as well as that of simplified procedures, many Customs administrations conduct regular reviews and audits to assist them in streamlining their operations.

2.1.11. Trade Facilitation

The trade facilitation agenda is gaining increasing momentum as the Doha Ministerial Declaration and subsequent decisions of the General council of the WTO have sought to intensify international commitment to further expedite the movement, release and clearance of internationally traded goods in transit. The success of the agenda is heavily

reliant on the ability of Customs to raise the portcullis in an effort to achieve an effective balance between trade facilitation and regulatory intervention. Achieving such a balance can provide significant flow-on benefits for national economics, and the issue of trade facilitation has consequently been added to the WTO agenda, with many countries now re-assessing their legislative and administrative approach to the regulation of international trade. Specifically, the Singapore Ministerial Declaration direct the council for trade in goods to undertake exploratory and analytical work, drawing on the work of other relevant international organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area (Widdowson, 2007).

As pre UNESCAP, (2002), trade facilitation first included in the WTO agenda as one of the Singapore issues at the 1996 WTO Ministerial Conference. A symposium on trade facilitation was held in 1998 to explore the main concerns of traders when moving goods across borders. In November 2001, the Doha Ministerial Conference called for negotiations on trade facilitation after the 2003 WTO Ministerial and subject to agreement on the modalities of negotiation. WTO members formally agreed to launch negotiations on trade facilitation in July 2004.

In the WTO text on trade facilitation, there are three specific articles dealing with the simplification and harmonizing of trade procedures namely:

1. **Freedom of transit** (article V), whereby each member state is requested to grant freedom of transit for goods, vessel and other means of transport crossing its territory via the routes most convenient for international transit.

2. **Fees and formalities** (article VIII), which states that all fees and charges imposed with respect to importation and exportation must be limited in amount to approximate the cost of services rendered and must not represent an indirect protection to domestic industry or a source of revenue for fiscal purpose.

3. **Publication and administrations** of trade regulations (article X) this requires that all trade regulations be published promptly in such a manner as to enable governments and traders to become acquainted with them.

Even though trade facilitation first included at the 1996 WTO Ministerial Conference there are several GATT provisions that are related to trade facilitation, that are agreement on: customs valuation, rules of origin, pre-shipment inspection, import licensing procedures, technical barriers to trade (TBT) and the Application of Sanitary and Phytosanitary (SPS) measures (www.unescap.org, unescap), a symposium on trade facilitation.

2.1.12. Capacity Building

In the customs context, capacity building is commonly understood to mean developing or acquiring the skills, competencies, tools, processes and resources needed to improve the capacity of the administration to carry out its allotted functions and achieve its objectives.

It is a broad and comprehensive process involving all aspects of customs administration and cannot be tackled successfully on a narrow technical or single-issue. By way of example, the effective implementation of the WTO valuation Agreement requires much more than simple government agreement. It usually involves legislative change, the creation of new administration infrastructure, the development and implementation of new systems and procedures, and a significant increase in the skills and knowledge of national customs officials.

The OECD (2007) has estimated that time delays, paperwork and compliance related to border crossing costs between 5-13% of the value of the goods involved. A recent study estimated that reducing the cost of international trade transactions by just 5% by 2006 could add \$US 154 billion or 0.9% to the Asia Pacific Economic Co-operation region's GDP each year. The same report concluded that customs reforms in Singapore, Thailand and the Philippines are estimated to yield a \$US 53.9 billion increase in real annual income. While there is no universally accepted model for modern customs administration, the international customs community believes all capacity building activities in customs

should be focused on increasing customs performance in respect of each of the key principles outlined in the Revised Kyoto Convention. The following principles are therefore based heavily on the convention.

Integrity customs administrations should be free of corruption and strive to uphold the highest levels of integrity.

Transparency customs laws, regulations, administrative guidelines and procedures should be public and provide to clients in an easy accessible manner.

Accountability customs administrations should be accountable for their actions through a transparent and easily accessible process of administration and/or judicial review

Predictability customs laws, regulations, administrative guidelines and procedures should be applied in a stable and uniform manner.

Facilitation & control while ensuring proper enforcement of customs laws and regulations, customs administrations should strive to facilitate the processing and clearance of legitimate trade by risk management.

Client service customs administration should continually strive to improve the level of service they provide to clients.

Standardization customs law, regulations, administrative guidelines and procedures should, where appropriate, be harmonized with internationally agreed standards.

Simplification customs law, regulations, administrative guidelines and procedures should be simplified to the extent possible so that customs clearance can proceed without undue burden.

Minimum intervention customs administrations should apply sound risk management systems, and audit-based control to identify high-risk activities, people, cargo and conveyances and limit the level of customs intervention.

Information and communication technology customs administration should make maximum use of information technology to facilitate the adoption of the principles outlined in the revised Kyoto convention.

Co-operation and partnership customs should strive to develop co-operative relationships with all stakeholders including government agencies, the private sector and other customs administrations.

Continuous improvement customs should work with established standards of performance and implement systems procedures, which strive to continually improve the efficiency and effectiveness of all business process.

Compliance improvement customs should work with clients to assist them to improve their level of voluntary compliance. In addition, all customs reform and modernization efforts should be focused on establishing or strengthening the management and administrative capacity of customs administrations (www.wcoomd.org ,WCO).

2.1.13. Relations between Customs and business

Buyonge and Kireeva, 2008

“Firstly, as would be expected, most Customs administrations find it difficult to sustain genuine dialogue with business, and the relationship is mutually antagonistic because compliance with Customs laws and procedures is often involuntary. Kenya was cited as an exception rather than the rule among the countries surveyed, where Customs officials went out of their way to call private sector representatives for meetings. This relationship means that changes in legislation or customs procedures are usually made suddenly without consultation or dialogue with the business.

The revenue authorities of Kenya, Uganda, Tanzania and Rwanda have made taxpayer consultation an important part of their approach to achieve voluntary compliance. In addition to holding regular seminars and workshops, Kenya, Tanzania and Rwanda hold an annual event called Taxpayers’ Day, which is used to highlight the importance of voluntary tax compliance and to award individuals and companies that performed exceptionally well in various categories. In Uganda, such events are held monthly. Indeed, the study mentioned Rwanda as a country, although the questionnaire was not administered in Rwanda.”

2.1.14. Contribution of various agencies to customs delays

According to Buyonge and Kireeva, (2008), even if business peoples usually, thought that, delays are largely caused by customs authority, which may be partly true in the case of delays caused by pre-shipment inspection companies sub-contracted by customs to carry out verification of values, quantities and quality of goods. In other cases, customs usually have limited control over the activities of other government agencies responsible for checking goods standards, phytosanitary and health inspection.

2.1.15. Overview of the Ethiopian customs

Ethiopia is located in the Northern part of Africa known as the Horn of Africa. It is a big landlocked country with a population of over 75 million and with land area of 1.13 million km². It is surrounded by vast lowlands of the border regions and central highland is bisected by the Great African Rift Valley. It has a diverse topography ranging in altitude from 150 meter below sea level to 4620 meter above sea level, which makes diverse agro-ecology and climate zones (Girma, 2009).

In Ethiopia, Customs duties were levied and collected around the 1st century in the Kingdom of Axum on the Red Sea coast (Buyonge, 2008). Nevertheless, it was established during Menelik II as a legal governmental structure in 1889, to collect government revenue.

Beginning from 1889-1923 it was under the Ministry of Finance & Treasury, from 1923-1941 under Ministry of Finance, from 1941-1996 under Ministry of Trade (ERCA, 2010).

Meanwhile, in 1997 Ethiopian Customs Authority was Re-established as a Federal Government organ with its own juridical personality. It was accountable to the Board, under the objectives of Collect duties and taxes on goods imported or exported; Implement Laws and International Conventions related to its objectives; Control the importation or exportation of prohibited or restricted goods (proclamation 60/1997).

Finally, it re-organized since July 2008 merged with the Ministry of Revenue, & Federal Inland Revenue Authority. And become one institute and named Ethiopian Revenue & customs Authority (ERCA), directly accountable to the Prime Minister Office (proclamation no. 587/2008). However, before merging the three institutes, a long process of study called "Business Process Reengineering" had taken place. The study was undertaken for a year and half beginning from November 2007 by teams of officials selected from within the administration. The study has looked into the selected key business processes and has come across inefficient organizational structure and unnecessary complicated procedures that permitted insufficient service delivery. The study has also indicated that there was corruption within the administrations and that smuggling and tax evasion were serious problems. These problems have depressed the attempt of the foregoing administrations to be successful in achieving their objectives.



Owing to the depressing problems that worked against efficiency, the former administration has failed to deliver efficient service to its customers such as importers, exporters, taxpayers, the federal government, the society etc. For instance, international trade participants (importers, exporters) were unable to deliver their goods to domestic and international market on time (ERCA 2008).

Following the establishment of new authority, the government replaces the proclamation no.60/1997 by proclamation no.622/2009. The new customs proclamation takes into consideration that, the necessity of modern customs legal framework, which is compatible with the increasingly growing the national and international, trade and encourages trade and investment. It also presumed the international, continental and regional trade agreement Signed by the country.

Since its establishment, the authority has made unreserved effort in improving service delivery, revenue collection, law enforcement and combating illicit trade and corruption. ERCA is expected to accomplish these objectives both effectively (by achieving them) and efficiency (at the lowest possible cost to the budget and to the trading community) without compromising trade facilitation.

ERCA also scaled up customs reform program (a sub-component of tax and customs reform program which was started in 2008/2009) to further overhaul the customs administration system which resulted in strengthening customs modernization and

automation system (ASYCUDA++), reduced clearance time, improved the human resource profile, managed to enhance the collection of revenue and enforcing the customs laws.

Nevertheless, the rapid increase in volume and complexity of international trade has given rise to the need of further enhancing the capacity of the Authority to improve efficiency of customs clearance to be in line with international standards (ERCA, 2010).

2.1.15.1. History of ASYCUDA in Ethiopia

It all began in 1995 when a group of COMESA Delegates came to Ethiopia to introduce ASYCUDA ver 2.7 to Higher Customs Officials. The project document was signed in June 1996 both by UNCTAD and Ethiopian Customs Authority. The project duration was for a period of 2 years. The project was financed by UNDP and Monitored by MOFED. Initially the ASYCUDA version 2.7 was implemented since 1998 and phased out in 2001.

Though, the project has come to an end, on the other hand the volume of import and export of goods increasing every year. In order to cop up with the current trade activity and need of the business community, the Ethiopian Customs requires an advanced system which helps to minimize the limitation of ASYCUDA++ ver. 2.7 and meets the current demand of its customers and stakeholders.

Therefore, the need to upgrade Version (Ver) 2.7 has become a compulsory task for the customs Authority.

The need to migrate from ASYCUDA Ver - 2.7 to ASYCUDA ++ System

It is obvious that before ASYCUDA++ system was introduced in Ethiopia the collection of Duties and tax Assessments have been performed manually using Desk calculators. On the other hand, the annual external trade statistics was not up to date; usually lag 2 years behind the current year. Revenue collection was done by manual Receipt which was really time taking and cumbersome. However, after the introduction of ASYCUDA++ the above problems were highly reduced.

Limitations of ASYCUDA Ver.2.7

- ASYCUDA Ver. 2.7 was based on DOS environment File based system and the data was stored in ASCII Format.
- Queries are fixed and integrated with the system.
- Does not include selectivity programs
- Limited Report facilities
- Post-Entry of a declaration produced a new number and the report will have a date fallacy.

Therefore, In order to meet the current world trade facilitation demand the

authority decided to upgrade the current system and move to more advanced system which is known as ASYCUDA++.

ASYCUDA++ is a product of UNCTAD, based on the client server structure form and supported by ORACLE Data base

The Current Technology:

The broad band service which includes the Wireless Telephone, leased Line, V-SAT etc have helped and brought many significant changes to the environment of the nongovernmental organizations and to the business community as a whole. Taking all these in to account the Ethiopian Customs Authority has decided to implement the ASYCUDA++ soft ware at the clearance offices and remote checking points which are located far from the Head Quarter.

Features of ASYCUDA ++

- Client - Server base architecture;
- Includes - Selectivity - Risk Assessment module ;
- Direct Trader Input (Register the customs declaration from the declarant premises;
- Skilled users can unite their own query from any ORACLE support application soft ware;

- ASYCUDA++ application software run on Linux operating system software and supported by ORACLE DATA BASE;
- 90 Reports are integrated with the system and user can also develop their own report using UDR facility ;(User Defined Reports).
- Post-Entry of a declaration does not produce a new number.

Objectives of the ASYCUDA++

- Developing updating and building the ASYCUDA++ control files
- System studio test at HQ.(proto type)
- conducting training for final users
- Parallel test at pilot site.
- Launch live operation.

As per the above objectives, the task was begun in Jan/2004 and completed in July/2004. However due to delay in equipment delivery (main server and work stations) the parallel test was done in the first week of August and finally the pilot site went to live operation in Aug 23/2004.

Pilot site Achievements

- The declaration process became simple and different kinds of reports were available both from the pre installed report format and by SQL request.

- The limitation which was seen in Ver.27 totally solved in ASYCUDA++ system.
- For the first time, in Ethiopian customs history of Automation Direct trader Input (DTI) was practically implemented by the prominent clearing agent Maritime and Transit Enterprise (MTSE) who invest a huge amount of money to implement the ASYCUDA Brokers module.
- This remarkable achievement gave a paramount satisfaction for the national and foreign experts to continue the roll out program with full enthusiasm (Elias ,2008)

General Customs Clearance Procedure

- Lodgment of entry the importer /agents are required to complete the customs declarations. Beginning from the reorganization of the authority, it is the responsibility of importers and/or agents to make sure that the declaration is fully and accurately completed and all supporting documents are produced and submitted to the customs office.
- Checking of declaration, the face vet officer receive and check the goods of declaration against the document produced whether it is per the instruction or not, then accept or reject.
- Identifying risk level of the document using the ASYCUDA++ system.

- An examination of goods, this activity is undertaken by the examiner to assure that the goods and conditions on the declaration are the same with the nature, origin, quantity and value of the goods.
- Release of goods, this is the action taken by the customs to permit goods undergoing clearance to be placed at the disposal of the persons concerned, after the fulfillments of all the formalities (ERCA,2010).

2.1.15.2. Customs Formalities in Ethiopia

It is stated in the proclamation 622/2009, that the formalities to be followed by the authority and other stakeholders.

2.1.15.3. Customs Declaration

Customs declaration may be made in written form, orally, by bodily action or electronically. Customs deceleration to be presented in written form shall be filled in the prescribed form, signed and contain all the particular necessary for completing custom formalities(Proclamation 622/2009 Art. 12: 1, 2, 3).

2.1.15.4. Supporting Documents of Customs Declaration

On the presentation of customs declarations, the following original documents shall be supplied to customs in a number of copies determined by the authority. Which are transportation document, invoice, bank permit, packing list, certificate of origin and other necessary documents (Proclamation 622/2009 Art. 13:1)

2.1.15.5. Acceptance of Customs Declaration

The authority shall accept customs declaration where the declaration and supporting document described before contains the necessary particular required for the completion of customs formality(Art:18:1).

2.1.15.6. Calculation of Customs Value

The customs value for the purpose of applying the customs tariff and calculating other import charges should used the following methods:

Transaction value: the customs value of imported goods shall be the price actually paid or payable for the goods (Art.33:1).

Valuation of identical goods: where the customs value of imported goods cannot be determined on the basis of the preceding article ,it shall determined by taking the transaction value of identical goods sold for export to Ethiopia at the same commercial level and in subset initial the same quantity at or about the same time as the goods being

valued. Where it is impossible to determine the customs value in accordance with the above sub article, the transaction value of identical goods sold at a different commercial level or in different quantities by making adjustments to take account of differences attributable to the commercial level or to the quantity(Art.34:1, 2).

Valuation of similar goods: where the customs value of imported goods cannot be determined on the bases of the last articles it shall be determined by taking the transaction value of similar goods sold for export to Ethiopia at the same commercial level and in substantially the same quantity at or about the same time as the goods being valued. Where it is impossible to determine the customs value in accordance of the article, the transaction value of similar goods sold at a different commercial level or in different quantities by making adjustments to take account of differences attributable to the commercial level or to the quantity(Art.35:1, 2).

Deductive value method: where the customs value of imported goods can't be determined as set forth in the previous articles, it shall be determined by using the unit price of identical or similar goods imported at or about the same time and which are sold in Ethiopia in their original state in the greatest aggregate quantity to persons who are not related to the seller, provided , however , that the price shall be reduced by: an amount of commission , expenses and profit equal to that usually reflected in sales with in Ethiopia of identical or similar goods of imported (Art 36:1).

Computed value method : where the customs value of imported goods can't be determined as set forth in the last articles it shall be based on a computed value, consisting of the sum of : the cost of manufacturing or processing of the goods, an amount representing the selling expenses and profit equal to that usually reflected in the sales of identical or similar goods by producers in the country of export , and the transport , loading , unloading, handling and insurance costs a associated with the transport of the goods to the port of entry in to the customs territory in Ethiopia(ART: 37,1).

2.1.15.7. Clearing Procedure

There are some clearing procedures adopted in the proclamation of Ethiopian government that serves in Customs clearing process, and presented as follows:

Basic Functions of Clearing

Lodgment of customs declaration: customs declaration means a statement made in the manner prescribed by the customs, by which the persons concerned indicate the customs procedure to be applied to the goods and furnish the particulars which the customs require for its application.

Declaration can be register through ASYCUDA⁺⁺ system using: -

- Remote Direct Trader Input (RDTI)
- Bureau direct trader input (BDTI), which is organized in all customs offices to serve clearing agent those have no access to RDTI.

According to the ASYCUDA⁺⁺ UNCTAD declaration layout, the declaration has 11 sections or quadrants.

- Trade operators' quadrants (exporter /consigner, importer/ consignee).
- General data quadrant (clearance office ,manifest number, registration number , assessment number, receipt number, pages, total items, total packages, declarant reference number, tax payer identification number , country of consignment and country of destination.
- Transaction quadrant (container flag, nationality of transport , mode of transport, mode of transport at boarder port of loading office of entry/ exit/ transit shed code).
- Financial quadrant (delivery term, currency and total invoice amount, rate of exchange, nature of transaction and bank code).
- Goods description quadrant (markets and numbers- container number).

- Procedure quadrant(item number , commodity code(HS), country of origin , gross weight, preference ,customs procedure code, net weight, quota, way bill, and supplementary units).
- Additional information quadrant (license and additional information).

Under Revenue information segment there are also the following quadrants:

- Duties and taxes quadrant (duty in tax, grand total duties/ taxes and charges).
- Accounting (account number, WHS code and period).
- Transit (not functional).
- Valuation note.

Fallback method: where the customs value of goods can't be determined under the provision of the previous article it shall be determined based on the data available in Ethiopia and using equitable methods consistent with the general principles embodied in the provisions of the proclamation.

2.1.15.8. Mandate of Ethiopian Revenue and Customs Authority (ERCA)

The authority is charged to administer the activities broadly indicated in the proclamation no. (587/2008) and customs proclamation (622/2009).

The Authority involves mainly in enforcement of prohibitions and restrictions, collection and accounting of revenue, trade facilitation, and compilation of statistics for economic planning.

Revenue Collection and Accounting:

- Customs duties-on imported goods and Export tax-on certain export e.g. semi-prepared hides and skins of animals.
- Excise tax-on selected goods such as luxury and basic goods which are demand inelastic i.e. goods that shows no change at all in quantity demanded when price goes up or down. The goods may be locally produced or imported items in to the country.
- Value added tax-on imported goods.
- Surtax- on imported goods.
- Withholding tax on imported goods (ERCA 2008).

Trade Facilitation: the authority is responsible to facilitate international trade, which it does by providing expedited clearance of goods through simplified and harmonized customs procedures as envisaged under the revised Kyoto convention (proclamation 622/2009).

2.2. Empirical Studies on Customs

Case studies on trade facilitation measures (TFM) implementation in five Asia-Pacific countries, namely Bangladesh, China, Indonesia, India and Nepal, reveal that continuous unilateral efforts have been made by the Governments of these countries to facilitate trade, although countries are often at very different stages of implementation. In many countries, various trade facilitation systems and measures have been implemented at selected border crossings or customs offices on a pilot basis, with plans to expand the systems to all border crossings and relevant agencies, as resources become available. However, it is often unclear when these systems will be implemented on a national scale and to what extent rules and regulations will be implemented uniformly throughout each country's territory.

In an effort to increase transparency, government agencies responsible for issuing and enforcing trade rules and regulations often have extensive publication and dissemination programmes in place, although the amount of information made available publicly vary from country to country. Not all countries have established standard time periods between publication and implementation and consultation with stakeholders (e.g., private sector traders) on new or amended rules remain ad-hoc and informal in most cases. Some form of binding advance ruling system is available or is being established, although the

coverage (e.g., tariff, valuation, origin) and effectiveness (e.g., time between receipt of the information and issuance of a ruling) of the systems vary greatly across countries.

Elimination of bribery and other corrupt practices of officials involved in the clearance and release of imported goods is given top priority by the private sector in all the countries. The Customs valuation, which is not part of the current WTO trade facilitation negotiation agenda, was the most problematic trade facilitation related area identified by private sectors in the five countries.

The Key Trade Facilitation-related Problems Faced by the Fijian Private Sector has been identifying in the following order. First Technical and sanitary requirements, second customs valuation; third tariff classification; fourth identification of the tariff classification; and fifth identification of the origin of the goods (Prasad, 2007).

The other areas listed in order as key problems are inspection and release of goods, submission of documents for clearance, obtaining of import license and payment of fees and penalties. This clearly shows that the current scope of trade facilitation negotiations at the WTO eventually may not be sufficient in ensuring quicker flow of goods. It is also evident that the private sector should be more prepared to take maximum advantage of automation and other programmes of customs agencies (Prasad, B., and 2007:23). The areas and issues identified here go beyond the current scope of the WTO trade facilitation negotiations.

In particular, customs valuation, which is not part of the negotiation, is still ranked as the most, or second most, problematic issue by the private sector in Fiji (Prasad, 2007).

Byonge and Kireeva, (2008) studied that; Customs, administrations in Africa are going through a period of rapid changes, which requires a paradigmatic shift in Customs operation. There are ongoing positive developments by Customs to reform and modernize procedures and processes, as well as commendable initiatives by the private sector to take a more proactive approach to improve Customs administration for the benefits of government and the business.

The Kenya and Tanzania Time Release study findings point out an important role for companies and third party service providers in expediting clearance of goods, specifically through prior lodgment of documents. It has been noted that prior lodgment alone cuts down the processing by up to half.

It must be admitted that many African Customs administrations do not have robust risk management systems enabling discriminatory treatments of importers and exporters on the basis of the risk they pose to loss of revenue or compliance with regulatory requirements (Byonge and Kireeva, 2008).

Since the speed with which goods are cleared from customs control partly depends on the work of third party logistics providers, it is important for companies to vet the ethical practice and competence of such providers.

During 1996, Morocco government decided to undertake Customs reform, based on the initial observation of Customs clearance operations. At that time the Customs clearance operation were slow, cumbersome, contentious, unpredictable and completely ill adapted to modern logical requirements for handling goods. For example in the port of Casablanca, releasing a container took 18 to 20 days and half of that time was directly attributable to Customs formalities.

The Customs reform has been based on restricting examinations to only selected declarations and on improving the method by which goods are selected for examination. The Customs administration has set a goal of releasing 95% of field declarations without immediate physical verification. The objectives are to increase transparency and fairness and, indirectly, to reduce Customs processing time (Steenlandt and Wulf, 2004), as a result releasing time down from 18days average to 10days.

Ghana has been made customs policy reform since 1990s. Among the problems that initiate to made the reform is the poor performance in providing customs service.

Because of the unsatisfactory of rendering service, trade facilities. Direct foreign investment and growth of the country has been impaired (Wolf, 2004).

Due to these reason, the government of Ghana awakening to make the change of number of structures that constrains investment. In particular, the government needs to improve the operational efficiency of frontline agencies that plays a vital role in trade facilitation. Thus, Ghana saw the introduction of an automated system for customs clearance, along with other reform initiated for the frontline agencies. So here, the researcher can observe that Customs service is one of those frontline agencies under consideration. Under the leadership of the Ministry of Trade and Industry, the delegate pay visit to Mauritius and Singapore to identify the key element of the approach that Ghana should intended to pursue to rapidly achieve a major breakthrough in trade facilitation (Wolf, 2004).

Ghana sets a committee, the inter-Ministerial Gateway oversight committee, with its own secretariat to oversee the various components of the ambitious initiatives. The situation before reform each agency required a unique set of documents that had to be submitted only to it and that it did not share with other members of the trading community, even though those other members may have required similar documents. Thu a great deal of paperwork was required and transcription of multiple copies was error prone. Customs clearing was involved 23 steps.

The carrier had to submit 13 copies of the shipping manifest to customs excise and protective service then transcribed this information in to a different format and used it as a basis for checking the manifest to ensure that all cargo that the carrier brought in had been declared. This process was time consuming and error prone and did not provide a transparent method for auditing whether all cargo had indeed been declared.

The statistical service compiled statistics by collecting all the documents on paper or on diskettes and compiling them in to different sets of statistical table. The transmittal and manipulation of the information needed to produce the desired statistical data again took a great deal of time, was not particularly accurate, and was produced only after long delays. This situation created many opportunities for soliciting and providing facilitation money to speed up transactions, to be permitted to jump the line or simply to adjust a customs declaration to suit the particular objectives of those involved. After the reform the step down to 8 and customs clearing become automated as a result clearing time was drastically down at kotoka international airport average clearing time have dropped from three days to four hour(18% goods clear in fewer than two hours and 75% clears the same day). Customs document review, which in the past averaged 24 hours, now average 10 minutes. In the other way government revenue up by 40 %(Wolf, 2004).

Maximum use of information and communication technology (ICT) is very important, inter alia, for efficient clearance procedures, uniform application of Customs law, and

effective implementation of risk management, efficient revenue collection and effective data analysis. Among the East African Community (EAC), Kenya introduced the new Customs Reform Modernization program, which is called Simba. While Tanzania and Uganda uses ASYCUDA++.

These ICT systems have contributed a lot in reducing the time for clearing and release. Moreover, in Kenya, the introduction of the Electronic filing of Customs document has increased the level of transparency (Kafeero, 2009).

A case study made in Angola by crown agents, shows that introduction of risk-based control, using single administrative document, introduction of automated customs entry processing , results in speeding up the flow of legitimate traders and reducing the Customs clearance time from 21 days to 48 hours. Moreover, introduction of new consolidated Customs code and regulation which is aligned with internationally agreed standards i.e. WTO rules for Customs valuation and adoption of Customs code of conduct and customer service standards results improving transparency and predictability for business Trevor S. Phill N. (2010).

Generally speaking, the study made in Fiji indicated that, Valuation classification, and identification of goods of origin is the main problems that contribute a lot to the lengthy time clearance process. Nevertheless, unfortunately the researcher

could not see the reason behind the problems. Therefore, the researcher will replicate whether these problems are really happened in Ethiopia and will identify what the reason behind these problems are.

CHAPTER THREE

METHODOLOGY OF THE STUDY

Under mixed method approach, the researcher bases the inquiry on the assumption that collecting diverse types of data best provides on understanding of a research problem (Creswell 2003). This mixed approach is appropriate when either quantitative or qualitative approach by itself is inadequate to understand a research problem.

To address the general objective and to fill the knowledge gap, adequate data from both quantitative (survey questionnaire) and qualitative (in-depth interview) sources are used, and converge data collected from both sources at the same time to get a comprehensive analysis of the research problem and interpret the overall result. Therefore, the researcher used quantitative survey research questionnaire and in-depth interview data gathering instruments together with documentary analysis. Thus, the researcher used concurrent mixed approach during the study.

3.1. Research methods

Research methods are specific techniques/methods of data collection and analysis used to achieve the broad research objective through addressing the specific objectives of the study. Consequently, this research used quantitative research methods particularly survey method and qualitative methods particularly in-depth interview and documentary analysis.

To address the research problem using a survey method the researcher used semi structured self-administered structured questionnaire.

The reason to implement self-administered closed ended questionnaire was because of its low cost requirement and not consume much time to be answered by the respondents and quicker to administer by the researcher but, if questions are wording unclear and if respondents are not literacy, its response rate is low.

This Survey instrument was prepared in English. The questionnaire had three parts, the first part was comprised of profile of respondents and the second part is comprised of the main idea of the study issue.

The other specific method was in-depth interview. In-depth interview is a qualitative technique designed to draw out a glowing picture of the participant's perspective on the research topic. In depth interview is an effective qualitative method for getting people to talk about their personal feelings, opinions, and experiences. Moreover, with regard to qualitative aspect of the method documentary analysis was made.

3.2. Study Design

The study population that the researcher intended to draw a sample is indicated in sample frame. Sample should be representative because based on the sample generalization is

given for the entire population. Therefore under this study the sampling frame were customs official and employees, importer and third parties clearing agents.

Table 1: population of the study

Category	Station		Total
	Addis Ababa/kality/	Addis Ababa Airport	
Employee	286	242	528
Official	24	37	61
Importer / Exporter	-	-	499
Clearing agent	-	-	298
Total			1298

Source: MTI, and ERCA, 2011

Sample Size

The other element of sample design is determination of sample size, given the limitation of availability of time and other resources the sample size was determined as follows even if, there is no a single right way for the determination of sample size (Fowler 1984).

Accordingly, the researcher has take 132 samples that was 10% from the total employees, 25% from the total officials, 10% from the total importers, and 10% from the total clearing agents. Random selection was applied in taking these samples.

Out of this 36, 28 and 16 questionnaires have been properly filled and returned from the employees, importer and clearing agents respectively.

On the other hand, the researcher has drawn 16 interviewees from 61 officials to get detailed and clarified information as they are decision maker in their respective organization.

3.3. Data Instrument

The researcher used semi-structured self administered questionnaire for both quantitative and qualitative aspect of the research method. Further, for the qualitative aspects of the study methods data were collected from in-depth interview and document analysis from ERCA.

3.4. Data Analysis Methods

The specific methods applied in the study were survey methods and in-depth interview together with documentary analysis. Therefore in this study, Quantitative data from the questionnaires were analysed using descriptive statistics. The rationale to use this descriptive statistics is to describe the basic features of the data in a study and to provide summaries about the sample and statistical package for social science (SPSS) tool was used.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter is dedicated for data presentation and analysis that the researcher collects from importers, Customs officials and employees, clearing agents and response found from selected Ethics and anti-corruption officers through questionnaires, interview and different documents of the authority. The chapter also tries to deliver findings based on the study.

As indicated in the objective part of this thesis, it is to identify problems and the main cause of these problems in related to Customs clearance delay. For this purpose the researcher prepares and distributes questionnaires to employees, importers/exporters and clearing agents. Hence, analysis is made based on the response of these three parts. In addition to the questionnaire, researcher has used a deep interview of Customs official and some selected importers/exporter in order to have deep understanding and get detail information that have not included in the questionnaires. Accordingly, analysis is organized and presented turn by turn and finally, summarized all together.

4.1. Survey Result and Analysis

4.1.1. Respondents' Profile

The employees of the selected Customs station have answered the questions that have given them in the form of questionnaires, and the researcher presents a follows:

The response for the questions requested of their profile, i.e. duration of time they stayed in the organization, level of education and age presented as follows in the form of table below:

Table 4.1. : Respondents' Profile

Service Year	Count	Percent	Education	count	Percent	Age	Count	Percent
0-1	2	5.26	Certificate	-		21-25	16	44.4
1-2	10	27.8	Diploma	1	2.8	26-30	17	47.2
2-5	18	50	1 st Degree	35	97.2	31-35	3	8.3
5-7	5	13.9	2 nd Degree and above	-		40 and above	-	-
7 & above	1	2.8						
Total	36	100		36	100		36	100

Source: Computed by the researcher from the primary data, (2011)

As can be seen from table 4.1 about 50% employees have 2-5, around 27%% have1-2, about 13% have 5-7, 5.6% have 0-1 and 2.8% have 7 and above service years of experience.

Moreover, the staff of the Customs station is organized by 1st degree holders 97.2% and the remaining 2.8% holds diploma, whilst, more than 90% of these employees are young enough that lies among 21-30, the remaining 8.3% are among 31-35. So here one can infer that the Customs stations are organized with BA holder as well as young generation but with less work experienced employees.

4.1.2. Employees Perception on: the Extensiveness of Training, Satisfaction of Salary payment, and Comfort ability of Work Environment.

The following table is summarized the responses that have been collected from employees to understand their perception on their: work environment and satisfaction of salary paid by the authority and to evaluate how the training was extensive, thereby to know the composition of employees in terms experience.

Table 4.2. Satisfaction of Salary Payment and Comfortability of Work Environment

Training	Co unt	Perc ent	Salary Payment Satisfaction	cou nt	Perc ent	comfortable Work Environment	Cou nt	Perce nt
0-1times	1	2.8	Yes	26	72.2	Yes	14	38.9
1-2times	8	22.2	No	10	27.8	No	22	61.6
3-4times	17	47.2	-	-	-	-	-	-
5 and above	10	27.8	-	-	-	-	-	-
Total	36	100	Total	36	100	Total	36	100

Source: Computed by the researcher from the primary data, (2011)

As it is indicated in table 4.2, employees were asked how many times they were participated in training and whether the training was related to their profession or not in terms of capacity building, 47.2% of them took 3-4 times, 22.2% of them took one- two times, 27.8%out of the surveyed get above five times and finally, 2.8% participate less than one times.

Moreover, 72.2% of the surveyed employees have satisfied with the salary they paid, but considerable number of employees are not satisfied with the current payment (27.8%). respondents were worried about the comfort ability of work environment they state that we are always under fear of job security, because if someone committed any mistake in decision, whatever the reason behind the decision, no excuse and justification, Just it is the right of the office to dismiss the employees without warning (61.6%), however the other 38.9% of these employees specified as it is comfortable.

Table 4.3: Respondent’s perception on: methods for checking document and use of post-clearance audit vs trade facilitation.

Alternative	Base for checking document		Post-clearing audit	
	Count	percent	Count	Percent
Manual	0	0		
Risk management	36	100		
Yes			30	83.3
No			6	16.7

Sources: computed by the researcher from the primary data, (2011).

The researcher assure from the respondents that the authority is already applied the risk management to identify risk level of a declaration and to be used as a base for checking that document or goods (100%). In addition to this, 83.3% of the response showed that post clearing audit is used for trade facilitation no matter to what extent is, nevertheless, the remaining 16.7% of the employees disagree that even if post clearing audit is used, they believe that it is to control and check the accesor’s decision thereby to penalize them as well as for revenue generation this is the opposite of trade facilitation.

The response of the employees for the open ended questions which demands to compare ERCA’s formalities and procedures with the WCO’s, indicated that although the existed ERCA formalities and procedures are almost similar to the WCO on the paper, but

practically it is in its infant stage, most of them believed that it is complied with WCO which means the Customs stations are acting in accordance with WCO formalities and procedures exactly, however, some surveyed respondent implied that, they have no idea about the WCO formalities and procedures.

Employees were asked to evaluate if the service provided to their customer is in favor of trade facilitation, most of the respondents point out that ,even if there is an improvement beginning from the re-establishment of the organization, but still the institution's focus is on controlling and revenue generation than trade facilitation. Although time length for a declaration to be released is calculated and shown on the manual, however, practically delays of releasing goods are still frequently existed. Meanwhile, some of confirmed that the organization is doing its best for trade facilitation than controlling and revenue collection, and they specified that the Customs clearing time is almost complied with the standard on the manual. The researcher has also requested the stance of employees about the capacity and efficiency of clearing agents regarding to profession and financial capacity. The majority of the surveyed employees specified that except some, the greater part of clearing agent are incapable in terms of financial capacity and unethical in their profession , but they know, how to deal and cheat the officers. In addition to this the employees describe the agents as they are the main facilitator of corruption among officers and customers and their contribution to the delay of time release of goods is not as such simple. However, minor number of the surveyed employees indicated that,

although some unethical and weak in financial position of clearing agents are there, most of them are acting in a professional wise and of course they are capable in terms of financial position.

Table 4. 5. Prioritization of Problematic Area by employees

Category	Employees							
	Count				Percent			
	1 st	2 nd	3 rd	4 th	1 st	2 nd	3 rd	4 th
Customs Valuation	23	8	4	1	63.9	22.2	11.1	2.8
Tariff Classification	7	21	5	3	19.4	58.3	13.9	8.3
Inspection And Release	4	6	22	4	11.1	16.7	61.1	11.1
Identification Of Goods Of Origin	1	3	5	27	2.8	8.3	13.9	75

Source: computed by the researcher from the primary data, (2011).

Employees were asked to rank the problematic area in providing Customs clearing service. Accordingly, 63.9% of them agreed that Customs valuation is the most problematic area, and 58.3% specify that classification stands next to valuation followed by inspection and release of goods (61.1%), and finally, identification of the origin of goods was addressed as the fourth problematic area (75%).

Table 4.6 prioritization of Problematic Area by Private Sectors

Category	Private							
	Count				Percent			
	1 st	2 nd	3 rd	4 th	1 st	2 nd	3 rd	4 th
Customs Valuation	33	7	2	1	75	15.9	4.5	2.3
Tariff Classification	2	16	20	5	4.5	36.4	45.5	11.4
Inspection And Release	8	18	14	4	18.2	40.9	9.1	4.5
Identification Of Goods Of Origin	1	3	7	32	2.3	6.8	15.9	72.7

Source: computed by the researcher from primary data, (2011)

N.B Private Is the Combination of Clearing Agents and Importers.

As it is displayed on table 4.6, about 75% of the private sector (importers and agents), agreed with the government (employees) that Customs valuation is the most problematic for trade facilitation. However, inspection and release was their second choice (40.9%), which is contrary to the employees. Tariff and classification has ranked 3rd (45.5%), that was the 2nd choice of the government and finally, identification of goods of origin categorized as fourth (72.7%) that is the same with the choice of employees.

Table 4.7. Prioritizing reasons behind the Problematic Area by employees

Category	Employees									
	Count					Percent				
	1 st	2 nd	3 rd	4 th	5 th	1 st	2 nd	3 rd	4 th	5 th
Under Valuation	25	9	2	0		69.4	25	5.6	0	0
Misclassification Of Goods	9	20	7	0		25	55.6	19.4	0	0
Officer's Capacity	1	5	13	7	10	2.8	13.9	36.1	19.4	27.8
Corruption	2	2	11	14	7	5.6	5.6	30.6	38.9	19.4
Wrong Origin	0	0	3	15	18	0	0	8.3	41.7	50

Source: computed by the researcher from primary data, (2011)

Table 4. 8: prioritizing reasons behind the Problematic Area by Private Sectors.

Category	Private									
	Count					Percent				
	1 st	2 nd	3 rd	4 th	5 th	1 st	2 nd	3 rd	4 th	5 th
Under Valuation	28	9	4	3	0	63.6	20.45	9.1	6.8	0
Misclassification Of Goods	3	14	8	16	3	6.8	31.8	18.2	36.36	6.8
Officer's Capacity	5	8	12	6	11	11.36	18.2	27.3	13.6	25
Corruption	8	7	15	10	4	18.2	15.9	34.1	22.7	9.1
Wrong Origin	1	3	5	8	25	2.3	6.8	11.4	18.2	56.8

Source: computed by the researcher from primary data, (2011)

N.B Private Is the Combination of Clearing Agents and Importers.

The researcher inferred from the above two tables (table 4.7 and 4.8) regarding to the reason behind the problems, both employees and private (importers and agents) respondents prioritized undervaluation on the top (69.45% and 63.6%) respectively. In the other four reasons, they reflect different positions, hence, employees specified misclassification of goods and tariffs (55.6%), officer's capacity(36.1),corruption (38.9%) ,and wrong origin (50%) from 2nd to 5th respectively. In the other hand, importers and agents deviated from the preceding standing of employees. Therefore, they placed, officer's capacity (29.6) 2nd, corruption (34.1%) 3rd, misclassification of goods and tariff (36.4%) 4th and wrong origin (56.8%) 5th.

Here it should be noted that, although they have the same stand in ranking problematic area and the reason behind the problems, their interpretation and justification is different from each other. When employees categorized Customs valuation as the most problematic area, they blame the importer and agents in submission of false invoice/undervalued/ transaction cost, and therefore this is the main justification for the authority to compile its own CD.

Customs proclamation no. 622/2009

“It is clearly stated in this proclamation, that five methods of valuation to be used, which are, transaction cost, identical cost of goods, similar cost of goods, computed value and fall back value methods. Additionally, it emphasizes that if the Customs office uses to value goods other than transaction value method, that value should be the same commercial level and in substantially the same quantity at or about the same time as the goods being valued.”

On the other hand when the private respondents accept valuation as a problem, they claimed that even if transaction cost on the invoice is true, the authority rejects unless it is greater than the values indicated in the CD which serves as the data base of the authority. As per the private respondent, the Customs office center of attention is to impose and collect high duties and taxes regardless of the true cost of the goods, and definitely, this hurts the trade facilitation.

The private respondents added that, the source of information used by the authority to compile the data in the CD is mainly the technology of internet and different WebPages'. The information loaded in these WebPages could not represent the value of goods imported now and then due to the dynamic nature of global market and technological

advancement. The other problem of the data is a matter of time duration, which the CD is updated and distribution to respective user.

As per the information they provide to strength their position, most of the time the CD is updating per six months and sometimes within three months and distribution to agents and importers took from 15-30 days. Finally they conclude that a data compiled for the mentioned period of time cannot be a true value for valuation given that the availability of fast moving of goods around the globe.

Importers have been requested to comment on the service provided by the Customs authority in related to trade facilitation, and most of them replied that, though improvements are observed, still time release for a document is long enough due to the inefficiency and the need of unfair duties and taxes of the authority. So, long Customs clearance is the opposite of trade facilitation, because Trade facilitation: is the simplification and harmonizing of trade procedures (WTO, 2001).

Moreover, importers added that, employees didn't treat customers properly based on the procedures compiled on their manual, so there is discrimination among customers which emanate due to the lack of uniform application of procedure as per the formal written document. This in turn rose because of the inadequate knowledge of officers and unhealthy relationship with customers.

Table 4. 9: perceptions of importers on customs clearing overall procedure

Alternative	1		2		3		4		5	
	Count	Percent	Count	Percent	Count	percent	Percent	percent	count	Count
Yes	28	100								
No	0	0								
Yes			1	3.6						
No			27	96.4						
Agents					4	14.3				
Customs					10	35.7				
Both					13	46.4				
Good							2	7.1		
Fair							24	85.7		
Bad							2	7.1		
Professional									23	78.6
Financial									4	10.7

Source: computed by the researcher from primary data, (2011)

Note. 1= Discrepancy of Written formalities and procedures vs practice, 2= Satisfaction with length of time clearance, 3= Source of delays of clearance process, 4= Specific problem of agent, 5= Efficiency of agents.

Surveyed respondent confirmed that the procedures on the proclamation and the practice on the grounds are different (100%), they clarified that procedures on the paper are somehow attractive but practically most of those formalities remained there.

In the meantime, importer's response for the questions whether they are satisfied with the Customs service regarding to the length of time release or not that, 96.4% of them implied they didn't satisfied by the service provided by the authority, and the remaining 3.4% of surveyed result indicated that they are satisfied with the Customs clearance process. The result shows participants in the length of Customs clearing process are agents (14.3%), Customs office (35.7%) and, (46.4%) both. Responses For the request to know the efficiency of agents in providing expected service including operating of ASYCUDA++ to fill declaration signified that, 7.1% good, 85.7% fair and 7.1% bad.

They added that agents consume time more than needed in filling the declaration and submit it with supporting documents using the DTI. Finally, Customs office also spent a lot of time due to different reasons. some of the reasons among the others are the unfamiliarity of employees with the ASYCUDA++ and the frequent network interruption because of the weak telecommunication infrastructure and of course the need of to collect large amount of revenue.

In addition to this, importers has been asked to express the specific problems of the agents and 78.6% indicated professional/ethical/ and the remaining 10.7% confirmed financial problems.

To measure the knowhow of employees, importers and agents about formalities and procedure, the researcher request them to point out if any discrepancy between the practice on the ground and the formalities and procedures on the paper. Their responses show that most of the employees indicate they are the same with minor variation, agents' comments that it is totally different which are good in the paper but very poor in the ground, however, most of the importers have not enough knowledge about the formalities and procedures.

Generally, almost all the respondents suggest that the authority is doing its own effort to modernize the Customs administration. Nevertheless, an effort made by a single office alone can't bring the expected output, and therefore, it is advisable to work in co-operative with stakeholders' hand-in hand.

4.2. Interview Results with Customs Officials and Documentary Analysis

As indicated in chapter three i.e. the methodology part, apart from the survey, this study employed documentary study and interview with Customs authority. In documentary analysis manuals and reports of the authority was incorporated.

4.2.1. Interview Result and Analysis

In addition to the questionnaire, the researcher has made an interview with officials in Addis Ababa Airport Customs branch and Addis Ababa commercial goods facilitation branch (Kality). During the interview almost all the officials argue that the clearing process has shown improvement from time to time, especially after the reorganization of the authority. The interviewees have justified the reason for the improvement as follows:

Firstly, the BPR study which facilitated the restructuring of the organization is the base or benchmark for the improvement. Secondly, shifting from manual to full automated system (ASYCUDA++) is the most decisive measure which serves as a vital input for the change. This in turns furnished the clearing agents and/or importers on line declaration services, using the direct trader input (DTI), and it also allows the access of electronic procedures.

Thirdly, the recruiting of graduate employees, has contributed in upgrading the capacity of the authority in performing modern customs clearing process. Finally, based on the BPR study, time taken for a document based on level of risk has been specified as a standard, and every employee is expected to deliver Customs clearance service within or below the presented time indicated on the manual. However, the officials agreed that, the Customs clearance process and the presented time length for a document didn't achieved as expected.

The interviewees extend that, the major causes for the failures of the planned outputs, are shortage of skilled manpower (in terms of number), interruption of system network (ASYCUDA++), employee's insufficient knowledge of the ASYCUDA'S function, lack of standard training center to equip employees with technical knowledge of the clearing process and to upgrade their knowhow and create awareness about the nature of imported goods, so that they can develop self confidence in classification of goods accordingly.

Meanwhile, in the discussion, the officials added that beside to the listed problems in the preceding paragraph, the clearing agents and/or owners have a significant negative role on the Customs clearance process. They argued that, most of the agents have not professional ethics even they facilitate to corrupt and are smart enough in cheating officers. At the same time, importers provide undervalued invoice, wrong certificate of origin and other forged documents. As the result of these and other related problems, Customs clearing time for a document/declaration became longer than the standard.

4.2.2. Documentary Analysis

The manual of the authority shows the procedures and formalities followed by the employees. Additionally, the time taken for a document based on their risk level is also expressed in detail for each breakdown of clearing activities. The procedures are clearly

stated including the time needed for that specific activity, but it looks a bit long as far as trade facilitation is concerned. The researcher also tried to review/see/ time release reports at clearance and at verification to triangulate the claim of the agents and importers for the response given regarding to the length of time taken for a document and to check the progress on the length of time release for a declaration. For this purpose, the researcher selected and used the following sample reports in the form of table for 2010 and 2011 as shown below. The report is based on the level of risk which is identified by the Risk management using the ASYCUDA++ and manipulated by the risk management officer in the long room. The sample report for just a couple of months is selected randomly.

After modernization is taken place in Ghana, clearing time have dropped from three days to four hour (18% goods clear in fewer than two hours and 75% clears the same day). Customs document review, which in the past averaged 24 hours, now average 10 minutes (Wolf 2004). Regarding to length of clearing time in Ethiopian context is as follows:

Table 4.10: Summarized report from 2010-07-01 to 2010-08-01 Kality branch documents.

Days	Red	Yellow	Green	Total	Percent	Clearance	Verification
1 Day	50	32	0	82	4.13	82	0
2 Day	374	78	0	452	22.78	446	6
3 Day	305	63	0	368	18.55	343	25
4 Day	180	42	0	222	11.19	189	33
5 Day	128	22	0	150	7.56	119	31
More Than 5 Day	614	96	0	710	35.79	353	357
Total				1984	100		

Source: ERCA (Kality branch), 2010.

As can be seen from table 4.10 the majority of document (31%) fall under the risk level of red, (4.7%) under the risk level of yellow, which needs physical examination as per the

procedure indicated in the manual. And the time taken for clearing is categorized with the more than 5 days, means it can be from 5 to 30 days and sometimes may be more than those days. Moreover, when documents are hand over to verification team, the waiting days can be increasing for some additional period of time, because legal litigation may raised by respective parties.

Meanwhile, 45.46% of documents handover today to the Customs office get processed and released within 1-3 days, and 18.75% of declaration released between 4 and 5 days.

Table 4.11 Summarized report from 2010-08-01 to 2010-09-01 Kality branch.

Days	Red	Yellow	Green	Total	Percent	Clearance	Verification
1 Day	75	74	0	149	7.57	149	0
2 Day	355	140	0	495	25.15	484	11
3 Day	251	67	0	318	16.16	283	35
4 Day	174	49	0	223	11.33	184	39
5 Day	103	21	0	124	6.3	88	36
More Than 5 Day	540	119	0	659	33.49	296	363
Total				1984	100		

Source: ERCA (Kality branch), 2010

In comparison to the last month report in the same year, it has been shown a bit improvement in terms of number of documents categorized under red and yellow that

has fall within the more than 5 days, but number of documents handover and cleared at verification shows increment by 10 documents.

Table 4.12. Summarized report from 2011-03-10 to 2011-04-08 Kality branch.

Days	Red	Yellow	Green	Total	Percent	Clearance	Verification
1 Day	53	120	0	173	9.99	167	6
2 Day	347	167	0	514	29.66	471	43
3 Day	206	86	0	292	17.14	227	65
4 Day	168	68	0	236	13.62	174	62
5 Day	96	36	0	132	7.62	87	45
More Than 5 Day	286	100	0	386	22.28	227	159
Total				1733	100		

Source: ERCA (Kality branch), 2011

Those fall within more than 5 days, category of red and yellow risk level documents are much minimized to 22.28% in 2011, which was 31% in 2010, in the other hand, the documents processed and cleared among 1-3 days shows improvement and increased to 56.79% in 2011, from 45.46% during 2010. However, declaration released between 4-5 days has increased to 21.24% which is negatively affects the overall improvement of the release time of clearing process.

To conclude about the time taken for a document from face vet to release even if changes are observed the time is longer than enough in related to trade facilitation, even comparing to the time standard indicated in the authority's manual, it is faraway and inefficient. At time of reviewing the manual the longest clearing time for the red risk level is seated 6 hours, but practically, the report shows 1 day as minimum. Therefore, let alone 6 hours for red risk level, even the document fall under the yellow risk level is took more than a day. Moreover the report is only shown the time taken for a document from face vet to release, unfortunately it didn't include the time from release to removal. But it should be taken in to account the time after release as far as trade facilitation is concerned. So if that is the case, the real time taken to clear document beginning from face vet to removal is more than the indicated time above in the table.

In the meantime, the researcher has observed the progress in classifying document's level of risk, in the year of 2010 and 2011 by taking a couple of months as a sample.

Table 4. 13. Risk level of declaration

Channel	Red				Yellow				Green			
	2010		2011		2010		2011		2010		2011	
	Jul.	Oct	Jan.	Feb.	Jul.	Oct.	Jan.	Feb.	Jul.	Oct.	Jan.	Feb.
Number of declaration	2015	1678	1463	1218	454	558	570	496	10	44	302	69
percentage	81.3	73.6	70.2	68.3	18.3	24.5	27.3	27.8	0	1.9	2.5	3.9

Source: ERCA from the ASYCUDA++ system.

Note: Summation of percentage may not be equal due to rounding

It can be inferred from table 4.13 is that 81.28% of the processed declaration categorized under the risk level of red, so almost the declaration is high risk and this amount of document needs physical inspection which is really time consuming. However ,it observed that the improvement seen from time to time to time is promising, which falls to 68.31% in Feb. 2011,at the same time the yellow shows an increasing i.e. from 18.3% to 27.82% and the same to the green category of risk level.

4.3. Basic Findings

Responses showed that, the restructuring of the authority brings some changes and improvements of Customs clearing process, however almost respondents confirm that the time taken for a document to clear is still long and tiresome which impeded the trade facilitation. The researchers find the following problems and reasons behind them which cause delays of imported goods during clearance.

Identified problems:

- Customs valuation
- Methods of Customs valuation, Classification of goods and tariffs/harmonizing system
- Inspection and release of goods,
- Identification of goods of origin.
- The authority has not its own standard training center.

Reasons of the problems:

- Undervaluation of transaction value, the authority did not trust the importers, so it prepares data from different sources which is contrary to the proclamation. At the same time, importers undervalued the transaction value and submit forged

certificates of goods of origin; therefore, they are gambling each other which is against the rules and regulation of the country.

- Incapable officers/incompetency: even if most officers are degree holders, they are in short of technical skill of Customs, so they are incompetent in assessing and giving decisions of valuation.
- Misclassification of goods and tariffs: Customs officers intend to classify goods to the highest value to generate high tax, in the other hand, importers need to classify the goods to the lowest value to escape high tax payment, but none of them are in the right track.
- Corruptions; as per the analysis, importers pay money in the form of corruption, just to speed up the process of clearing legal goods. So the authority is vulnerable to corruption.
- Wrong origin of goods even if it is not serious, importers present wrong certificate of goods of origin.

On top this, the analysis indicated that there is no discussion and co-cooperativeness between the authority and stakeholders during and before the problems happened.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusions

As per the analysis made, there is a delay in Customs clearing and most of the customers are dissatisfied by the service provided. Furthermore, the authority did focus on controlling and revenue generation, this implies that there is no effort to balance controlling with trade facilitation, which is the direct opposite of the objectives of the authority itself and the WCO's interest.

Additionally, the authority breaches its rules and regulations that stated valuation should be based on transaction cost, because the authority is used the CD compiled by the authority from different website as a base to value the goods. If the transaction cost is greater than the cost in the CD, the authority accept it as the value of that specific goods for valuation but if it is less than the cost on the CD, it rejects and took its own cost, this implied that the authority didn't bother about the real cost rather it focused to collect large amount of duties and taxes, this in turn affects the trade facilitation.

Meanwhile, most importers and agents are not ready to submit the true value of goods, they made their effort on creating wrong certificate of origin, false transaction cost and misclassified of goods and tariffs to pay less duties and taxes thereby to get unfair advantages.

5.2. Recommendation

Recommendation 1: for the Authority

As it is indicated in the finding part that there is time delays in Customs clearing process, and at the same time the problems are already identified including their reason.

Therefore, the authority needs to shorten the clearing time, thereby facilitating trade and investment. However, to avoid the delays, first the mentioned problems should be solved, and this needs discussions and working together with all stakeholders.

To the view of importers/agents mistrust existing between them and the Customs particularly on valuation complicate clearance process.

It is recommended that Customs officials should consider importers and clearing agents as a business partner unless proved otherwise. Where an importer is found to be cheating, legal measures combined with publicity of those involved should be applied to facilitate compliance.

Measures should be taken step by step on the citizens who commit crimes that commence by financial penalty, sending them to jail and even cancelation of their license. Moreover, these measures should apply uniformly on all over the importers found to be cheaters.

On top this, the Customs office should provide extensive training to upgrade the inadequate skilled manpower, particularly on valuation, classification and operating of ASYCUDA++.

It also needs to recruit additional employees to solve the shortage of skilled man power. For this purpose, the authority needs to have its own standard training center.

Recommendation 2: for the Agents

First of all they need to be ethical and loyal to their profession. At the same time, they have to build their financial capacity to deliver standard service to their customers and they have to balance their ability of performing declaration with number of customers.

Recommendation 3: for Importers

The contribution of importers in the delays of clearance process was undeniable. So to play positive role in minimizing the clearance time, they should be loyal in submitting the true invoice of transaction value and certificate of origin which can avoid the complication of valuation and classification of goods and tariffs.

As far as they are doing a business in Ethiopia, it is advantages to know the rules and regulation of the country.

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Appendix

Addis Ababa University
School Of Graduate Studies
Departments of Accounting and Finance

Dear Respondents

The objective of this questionnaire is to secure the necessary and relevant first-hand information that may be useful to conduct a Thesis regarding “*challenges and opportunities of Customs on Trade Facilitation in Ethiopia*” which will be used to prepare a Thesis required for my MSc degree in Accounting and Finance. Therefore, your response in this regard helps a lot to undertake the study. The result of this survey will be treated with at most confidentiality and will be strictly used for academic purpose only. The researcher thus appreciates in advance your cooperation and sparing your valuable time in filling this questionnaire (**by employees**).

1. Customs station _____

2. age _____

3. Educational background a) certificate b) Diploma c) Degree d) Masters e) PhD.

4. Service year _____

5. How do you see the existed Customs clearance formalities and procedures in comparison to the world Customs organization’s one?

6. How do evaluate the Customs clearance service in favor of trade facilitation, i.e. Customs clearance time? _____

7. Would you please rank, the following most problematic area in conducting clearing process?

Problem	Rank
Customs valuation	
Classification	
Identification of Origin of the goods	
Inspection and release of goods	

8. Would you please rank the following reasons behind the above problems?

Reason behind the problems	Rank
Over/under valuation	
Misclassification	
Wrong Origin	
Corruption	
Capacity of Officers	

9. What is the base for checking documents?

Transaction

Risk Management

10. If your answer for question no. 10 is transaction, why? _____

11. Did your office use post-clearance audit for the sake of trade facilitation?

Yes No

12. If your answer for question no.12 is no, why? _____

13. How many times did you take training? a) 0 b) 1-2times c) 3-4times d) 5 and above.

14. How related was the training with your profession? _____

15. Are you satisfied with salary you paid? Yes No

16. Are you comfortable with the work environment? Yes No

17. If your answer for the preceding question is no, what are the problems that makes you discomfort? _____

18. How do evaluate the capacity and efficiency of the clearing agents in terms of financial capacity and profession capacity? _____

19. Any thing you want to say Customs clearance process _____

Thank you for your co-operation!

Addis Ababa University
School Of Graduate Studies
Departments of Accounting and Finance

Dear Respondents

The objective of this questionnaire is to secure the necessary and relevant first-hand information that may be useful to conduct a Thesis regarding “*challenges and opportunities of Customs on Trade Facilitation in Ethiopia*” which will be used to prepare a Thesis required for my MSc degree in Accounting and Finance. Therefore, your response in this regard helps a lot to undertake the study. The result of this survey will be treated with at most confidentiality and will be strictly used for academic purpose only. The researcher thus appreciates in advance your cooperation and sparing your valuable time in filling this questionnaire **(by clearing agents)**

1. What are the problems you face in conducting Customs clearance? _____

2. Where do you think the problem lies?

In Customs office	<input type="checkbox"/>	in all of them	<input type="checkbox"/>
In clearing agents	<input type="checkbox"/>		
In Importers/Exporters	<input type="checkbox"/>		

3. If four answer for question no.2 is in all of them, list the problems of:

Customs office _____

Clearing agents _____

Importers/Exporters _____

4. What do you think the reason behind the problems? _____

5. Do observe any problems in connection to ASYCUDA++? Yes No

6. If your answer is yes for the preceding question, state the problems _____

7. Can you comment on the Formalities, Procedures and no. of documents required by the customs office, which you may think valueless? _____

8. Did you observe any discrepancy between the written formalities, procedures and the practice on the ground?
Yes No

9. If your answer is yes for the preceding question, state the differences: _____

10. How do you evaluate the procedures and formalities of the ERCA in comparison to World Customs Organization's (WCO)? _____

11. Do you have any suggestion on the length of clearing time release?

12. would you please rank the following most problematic areas in conducting clearing process:

Problem	Rank
Customs valuation	
Classification	
Identification of Origin of the goods	
Inspection and release of goods	

13. Would you please rank the following most reason behind the preceding problems

Reason behind the problems	Rank
Over/under valuation	
Misclassification	
Wrong Origin	
Corruption	
Capacity of Officers	

14. Anything you want to say about Customs clearance process in Ethiopia: _____

Addis Ababa University

School Of Graduate Studies

Departments of Accounting and Finance

Dear Respondents

The objective of this questionnaire is to secure the necessary and relevant first-hand information that may be useful to conduct a Thesis regarding “*challenges and opportunities of Customs on Trade Facilitation in Ethiopia*” which will be used to prepare a Thesis required for my MSc degree in Accounting and Finance. Therefore, your response in this regard helps a lot to undertake the study. The result of this survey will be treated with at most confidentiality and will be strictly used for academic purpose only. The researcher thus appreciates in advance your cooperation and sparing your valuable time in filling this questionnaire (**by importers**).

1. How do you see the existed customs clearance formalities and procedure in related to trade facilitation? _____

2. Do you observe any discrepancy between the written formalities and procedures and the practice on the ground? Yes No

3. If your answer is yes please list them _____

4. Are you satisfied with the customs service especially clearance process and length of time release? Yes No

5. If your answer for the preceding question is no, where do you think the problem lies? agent customs office both

6. How do you evaluate the capacity and efficiency of the clearing agent in providing the expected service for their customers?

Good Fair Bad

7. Are these agents fast and capable enough in filling the declaration form through the ASCUDA++ and submission of supporting document to the respective office?

Yes No

8. What do you think their problems?

Professional problem

Financial problem

9. Would you please rank, the following most problematic area in conducting clearing process?

Problem	Rank
Customs valuation	
Classification	
Identification of Origin of the goods	
Inspection and release of goods	

10. Would you please rank the following reasons behind the above problems?

Reason behind the problems	Rank
Over/under valuation	
Misclassification	
Wrong Origin	
Corruption	
Capacity of Officers	

11. Anything you want to say about Customs clearing process _____

12. Why do you pay money as a corruption?

For illegal activities to speed up legal activities

Volume of Declaration on each Customs station in Ethiopia in 2010

	Office	Year	Declarations	Percent
AA Airport	AAA	2010	58,009	55.33
AA head quarter	AAHQ	2010	311	0.29
AA Lagar (kality)	AAL	2010	27,978	26.68
AA Post Office	AAP	2010	2,871	2.73
Bahirdar	BAH	2010	26	0.03
Combolcha	COM	2010	284	0.27
Diredawa Airport	DDA	2010	27	0.03
Diredawa Lagar	DDL	2010	1,104	1.06
Galafi	GAL	2010	195	0.19
Gondar	GON	2010	8	0.001
Jijiga	JIJ	2010	383	0.37
Mekele	MEK	2010	1,377	1.32
Metema	MET	2010	112	0.11
Mille	MIL	2010	53	0.05
Mojo	MOJ	2010	1,945	1.86
Moyale	MOY	2010	439	0.42
Nazreth	NAZ	2010	9,653	9.21
Semera	SEM	2010	60	0.06
Total			104,835	100.011

Sources: ERCA, 2010

Import cargo Clearance procedure work Flow Chart

