

**ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE
DEPARTMENT OF LOGISTICS AND SUPPLY CHAIN
MANAGEMENT, GRADUATE STUDIES**



***CHALLENGES OF CUSTOMS CLEARING AND THEIR
IMPLICATION ON INTERNATIONAL TRADE IN ETHIOPIA***

**By : Bahru Muktar
Advisor: Busha Temesgen (PhD)**

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Statement of Certification

This is to certify that Bahru Muktar has carried out his research work on the topic entitled “*The Challenges of Customs clearing and their implication on international trade*”.

The work is original in nature and is suitable for submission for the award of Master Degree in Logistics and Supply Chain Management (M.A in LSCM).

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DECLARATION OF ORIGINALITY OF WORK

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

Researcher's Full Name: Bahru Muktar Sherif

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Date _____

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ABSTRACT

Customs procedures, documentary requirements, inspection as well as general security issues can all severely hamper the timely movement of goods across borders. The main objective of this study was to identify the major challenges of customs clearing services to provide timely clearance of goods and their implications on international trade. In order to achieve the objectives of this study, the researcher used both qualitative and quantitative research. The research design that was implemented for this study was descriptive where data obtained from respondents and secondary data collected from the concerned customs stations were recorded, described and analyzed. The findings of this study showed that the challenges of import and export clearance mainly depend on human resource management and development, cooperation and coordination, automation, customs valuations as well as customs risk management. The ranking by respondents showed customs valuation, cooperation and human resources and development are the forefront challenges of customs clearing. Finally the study recommended that the Ethiopian Customs Commission (ECC) should examine the overall system of risk management, human resource management and development, cooperation and coordination among customs and other government agencies, and customs valuation by considering priority area to be solved to speed up customs clearing and facilitate international trade.

Key words: Customs clearing, Customs valuation, risk management, human resource management, cooperation and coordination, implication of international trade.

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Acronyms

ASYCUDAAutomated System for Customs Data
COMESACommon Market for Eastern and Southern Africa
CPC	.....Customs Procedure Code
DTI	....., Direct Trader Input
EAC	.....East Africa Community
ECLAC	.....Economic Commission for Latin American and the Caribbean
ERCA	.....Ethiopian Revenue and Customs Authority
ESCWA	.....Economic and Social Commission for Western and Asia
GATT	.....General Agreement on Tariff and Trade
GA	.....Government Agency
GDP	.....Gross Domestic Product
NGO	.....Non-Government Organization
OGA	.....Other Government Agencies
SAD	.....Single administration document
WCO	.....World Customs Organization
ETL	.....Ethiopian Trade Logistics
RKC	.....Revised Kyoto Convention
MOR	.....Ministry of Revenue
ECC	.....Ethiopian Customs Commission

CHAPTER ONE

INTRODUCTION

This introductory chapter will be concerned with background of the study, statement of the problem, basic research questions, objectives of the study, significance of the study, scope of the study, and limitation of the study.

1.1 Background of the Study

Trade has proved to be one of the most effective tools to foster development. The notion of trade has becoming global phenomenon. That trade is getting free among nations. It involves greater interdependence among countries and currently linked to the phenomenon globalization Daniel (2008).

Many African countries, including Ethiopia, have been faced with the challenge of bringing about sustained economic development and growth. The emerging consensus in this respect is that trade, if well managed, could play an important role in tackling the challenge. Trade undeniably plays a crucial role in bringing about economic development and growth Tsegaye and Endris (2011).

According to Desta (2016) one of the major contributors to government revenues in Ethiopia is revenue from international trade. Customs duty/tariff and other domestic taxes collected at the customs ports had a major contribution in tax revenue. This indicates that its role in trade facilitation and government budget is inevitable.

In recent years the international trading environment has been transformed dramatically in terms of the manner in which goods are carried and traded, the speed of such transactions, and the large volume of goods now being traded around the globe. This, together with mounting pressure from the international trading community to minimize government intervention, has caused customs authorities to place an increasing emphasis on the facilitation of trade.

The roles and functions of customs have evolved with the ever changing domestic and international environment. As a result, trade facilitation which entails the simplification and harmonization of customs procedures is now one of the key challenges for many customs administrations. Effective and efficient customs administration contributes to facilitating

legitimate trade and implementing proper customs control, which are engines of sustainable economic development Mengistu (2016).

According to Minwagaw (2016), Ethiopian government has been undertaking various reforms and structural adjustments including the issuance of the recent “Customs Proclamation No. 859/2014”. This Proclamation has been enacted fundamentally to establish modern customs legal framework compatible to the contemporary international trade practice, and international, continental and regional trade agreements to which the country is a member.

As stated by Tilahun (2011) Ethiopia is one of the countries with the highest set of challenges in cross border trade. On average, sub-Saharan African customs delays are the longest in the world, the average delay is 12 days in the region compared with 7 days in Latin America; the longest delays in the region are in Ethiopia - where the average trader has to wait more than 30 days for customs to clear goods.

1.2 Statement of the Problem

According to the World Customs Organization (2008) one of the focal issues in international trading is the performance of customs and their efficiency in clearing goods. 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. Being the foremost agency at the border and a prominent player in the release of goods, Customs should therefore strive to reduce the complex clearance procedures and limit information requirements to the bare essentials. Modern customs administrations have recognized that streamlining and simplifying clearance procedures are beneficial to importers, exporters and national economies. Customs administrations are thus increasingly introducing simplified procedures so as to put in place efficient and effective clearance procedures while maintaining the traditional duties of revenue collection and enforcement.

One of the concerns in international trade is the time spent to clear export and import goods by complying with the customs regulations and procedures of the country in question, and the related transaction costs associated with such procedures. Reducing the time required for the clearance of goods at customs responds to trade requirements where the operators need to plan ahead for the movement of goods across borders in order to meet tight production schedules and just-in-time inventory systems that require forward planning.

Customs is in the forefront of the various agencies that intervene in international trade in goods. Customs is, for instance deeply involved in controlling goods which cross borders, determining goods nomenclature and origin, and collecting revenue as well as administering trade policies. Hence the manner in which Customs operates highly affect international trade either negatively or positively. In other words, the manner in which Customs operates can either complicate or simplify international trade in goods Kafeero (2007).

In addition to direct export/import activities, there are a number of distinct regulatory procedures and regimes that affect cross border operations. These operations fall into the wider categories of revenue collection, public safety and security, environment and health, consumer protection and trade policy issues. Customs procedures, documentary requirements, inspection as well as general security issues can all severely hamper the timely movement of goods across borders. Examples of bottlenecks and barriers are numerous, and they constitute substantial administrative and financial burdens for any trader and entail substantial economic and social costs to the national economy Tsegaye and Endris (2011).

Due to lack of simplified and harmonized customs procedures, effective utilization of information technology or automation, risk management, proper human resource management, cooperation with business and other stakeholders East African countries are facing challenges Wondwossen (2013).

As stated by Mesfin (2017) trade facilitation and regulatory control are the challenging issues in most African countries and a cause of delays and high transaction cost. Since, their customs administrations are characterized by, excessive documentary requirements; outdated procedures; lack of automation and insignificant use of information technology; lack of transparency, predictability and consistency; as well as lack of cooperation with other government agencies.

According to Debebe and Teklu (2016) time delays in international transactions impose trade costs. Imports from foreign countries that arrive at their destination port must be unloaded, moved to customs, inspected, cleared and finally picked up by the importer. These procedures take time and long delays impose a cost. Lengthy clearance times raise inventory and financing costs, impact a firm's ability to respond to market fluctuations and make it more difficult to plan. The total trade costs that imposed by clearance time delay consists of two parts,

observable transportation costs and unobservable costs related to observable delays at the port of entry.

The availability of information through publication of trade information is one among eleven OECD trade facilitation indicators. However, an overview of areas for trade facilitation, provided in OECD trade facilitation indicators-Ethiopia (2013) shows documentation, automation, procedure and information availability are low and below low income countries and Sub-Saharan countries.

The longer the time taken for import/export procedures, the more expensive imports, exports and production. This leads the country in general and any trader in particular to become less competitive in global market and cost of items for consumers in domestic market will increase.

Thus, the purpose of this study is to assess and identify the major challenges of customs import and export clearance and its implication on international trade in the country with a framework of ineffective customs automation and risk management, human resource management and developments, rules and regulations, customs procedures as well as cooperation with other government agencies.

1.3 Research Questions

The following are basic research question designed to provide possible solutions:

1. What are the main Challenges of customs clearing for import and export goods?
2. How challenges of customs clearing do implicate import and export trades?

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of this study was to identify the major challenges of customs clearing services to provide timely clearance of goods and their implications on international trade.

1.4.2 Specific Objectives

- To identify the main challenges of customs clearing of goods for import and export trade.
- To analyze the implication of challenges of customs clearing on import and export trade.

- To examine the level of enforcement of existing laws, regulations and procedure on customs clearing.

1.5. Significance of the Study

Some of the specific significances of the study included the following:

It will enable ECC management to see level of challenges of customs clearing and look for appropriate remedies for major challenges that enhance international trade.

It will help to resolve difficulties with trade entities and other public institutions i.e. agent involve in the customs clearance process.

It will help as a spring board for the organization or other interested individuals and institutions to conduct research in the area.

1.6. Scope of the Study

This research was conducted from October 2018 up to May, 2019. Conceptually, challenges of customs clearing can be several that can influence customs clearing. However, the study focus on customs clearing challenges related to Risk management and automation, human resource development and management, customs rules and regulation, customs procedure, customs valuation, and cooperation and coordination of customs with other agencies. Descriptive research designs with quantitative and qualitative approaches used. Moreover, the study undertaken in Addis Ababa and Modjo area Customs (Kality Branch, Airport Cargo and Modjo Dry port).

1.7. Limitation of the Study

In conducting this study the researcher couldn't get well-organized secondary data in the areas like performance reports that can indicate the gap between planned clearance time and the actual time taken, customer complains survey, lack of reference materials and previously conducted research in customs on the challenges of customs clearing in import and export trade and their implication on international trade in the country.

1.8. Organization of the Study

The study assessed and analyzed challenges and reasons for delays of customs clearing process in Ethiopia. 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 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 summary of findings, conclusions and recommendations.

1.9. Definition of key Terms and Concepts:

Administration: The executive part of the government; the person collectively who are interested with the execution of the laws and superintendence of public affairs.

Challenge: difficulties that countries, institutions, and individuals facing in the process of doing some activities to achieve pre specified objectives in different levels.

Customs: 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 the importation, exportation, movement or storage of goods. (Kyoto Convention)

Customs clearing agent/broker: A person who carries on the business of arranging for the Customs clearance of goods and who deals directly with the Customs for and on behalf of another person. (WCO).

Customs declaration: Any statement or action, in any form prescribed or accepted by the Customs, giving information or particulars required by the Customs. (WCO)

Customs control: Means measures applied by the Customs to ensure compliance with Customs law.

Customs formalities: All the operations which must be carried out by the persons concerned and by the Customs in order to comply with the Customs law. (Kyoto Convention)

Customs law : The statutory and regulatory provisions relating to the importation, exportation, movement or storage of goods, the administration and enforcement of which are specifically charged to the Customs, and any regulations made by the Customs under their statutory powers. (Kyoto Convention)

Declarant: Any natural or legal person who makes a Customs declaration or in whose name such a declaration is made. (WCO)

Risk management: The systematic application of management procedures and practices that are directed towards the effective management of risk.

Demurrage: A charge made by a shipping company or a port authority for failure to load or remove goods within the time allowed

Kyoto Convention, Revised: The Kyoto Convention, incorporating the amendments approved by the WCO in 1999.

Packing list: Itemized list of commodities with marks & numbers but no cost values indicated.

Phytosanitary Certificate : A certificate issued by the a Government agency (usually Agriculture) to satisfy import regulations of foreign countries indicating that a shipment has been inspected and found free from harmful pests and plant diseases.

Valuation: The appraisal of the worth of imported goods by customs officials for the purpose of determining the amount of duty payable in the importing country. The GATT Customs Valuation Code obligates governments that sign it to use the ‘transaction value’ of imported goods--or the price actually paid or payable for them-- as the principal basis for valuing the goods for customs purposes.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter will deal with theoretical Literature, empirical review, and conceptual frame.

2. Theoretical Literature

2.1. Customs Clearance

Clearance means the accomplishment of the Customs formalities necessary to allow goods to enter home use, to be exported or to be placed under another Customs procedure (RKC). The key measures proposed aim to expedite the clearance and release of goods at the borders. These measures include, inter alia, pre-arrival clearance, separate release from clearance, authorized trader schemes, risk management, and post-clearance audit. Customs modernization through automation and ICT use is a useful step in implementing such procedures (UNCTAD, 2008).

As shown below customs clearing process is one of the key import process required different documents. Customs clearing process is activity of verifying the document with physical goods.

The Main documents required for customs clearing process in the Ethiopian customs clearing process are:- Commercial Invoice, Packing List, Bill of Loading/Air way Bill, Certificate of Origin, Bank permit, Freight receipt, Insurance Certificate, Certificate of quality (optional), Trade License, and TIN Certificate.

According to Bates et.al (2007) the purpose of an effective and efficient importation and port-clearing process is to ensure that imported supplies are cleared from land, sea, airport, with the least possible delay after their arrival. Port delays can have costly consequences, such as:-

- Reduced shelf life or, for other very temperature-sensitive items, loss of potency,
- Deterioration of product,
- Damage to product cartons and packaging or damage to outer identification,
- Increase chance of theft,
- Storage fee (demurrage), which can result in prohibitively high costs,

-Stock outs, resulting in emergency purchases made at higher unit cost and with the potential for unassured quality Cash flow problem caused by products being tied up for indefinite periods.

2.2 Customs and Its role

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 the importation, exportation, movement or storage of goods in international trade. Similarly, customs law is defined as the statutory and regulatory provisions relating to the importation, exportation, movement or storage of goods, the administration and enforcement of which are specifically charged to the customs, and any regulations made by the customs under their statutory powers (Revised Kyoto Convention, Annex E6).

According to (Kefeero,2009) „Customs law“ is defined as the system of rules that govern the levying of duties and charges of any kind on or in connection with importation or exportation, the movement or storage of goods, the import and export procedures and formalities as well as the institutional organization of the agency or agencies which enforce those rules.

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 Widdowson (2005)

2.3 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.

World Customs Organization (WCO) International Convention on the Simplification and Harmonization of Customs procedures and commonly known as the Revised Kyoto

Convention (RKC) is the guiding principles of customs procedures. The RKC is acknowledged as the main international instrument covering trade facilitation as it pertains to the role played by customs administration in the global trading system Teweldebirhan (2011).

According to Matsuda (2011), generally speaking, an international trade transaction can be divided into five (5) key basic steps:

(1) Commercial procedure: establishment of a sales contract, issuance of a purchase order/delivery order, issuance of a delivery note and generation of a payment note/invoice.

(2) Regulatory procedure for export in the country of origin: a process to obtain an export license or permission, lodgment of the export declaration to Customs and obtaining release status.

(3) Transport procedure: establishment of the transport contract, domestic transport of goods, loading of goods, issuance of an airway bill and/or bill of lading, port departure process, international transport and port arrival process.

(4) Regulatory procedure for import in the county of destination: lodgment of cargo declaration (advanced cargo information), procedure to obtain an import license or permission, lodgment of the import declaration to Customs and obtaining release status.

(5) Financial procedure: debit and credit controls, an insurance-related process, payment of duties and taxes, payment of charges and work relating to the financial statement.

These steps are often interlinked but may also be separate. The sequence of the steps can also be altered depending on the business relationship and on special procedures such as the lodgment of a cargo declaration to a destination country prior to the loading of the goods in the country of origin, the lodgment of a customs declaration at import prior to the arrival of the goods and deferred payment.

According to Puengpradit (2010), Customs procedures are a significant factor that needs to be taken into consideration in relation to trade facilitation and customs regulatory control. Customs administrations should strengthen their customs operations by simplifying customs procedures and implementing risk management and audit-based control in order to enhance the capacity for revenue collection, improve the efficiency of customs clearance and controls, and reduce the time and costs for customs administrations and the trading community.

2.4 Customs Administration, Customs Valuation and Customs duty

2.4.1 Functions of Customs Administration:

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

According to Minwagaw (2016), one of the main issues in international trade is the performance of customs administrations and their efficiency in clearing goods. In the modern business environment of just-in-time production and delivery system, it has become important that importers and exporters are guaranteed fast and predictable release of goods. Customs administration should therefore strive to reduce the complex clearance procedures and limit information requirements to the most essential ones.

2.4.2 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).

2.4.3 Methods of Customs Valuation

Because almost all trading countries of the world implement the WTO customs valuation rules, importers and exporters are in a better position to know in advance the amount of duties payable and thus this will likely reduce the number of disputes and resulting delays (Clarete 2004). As stated by Minwagaw (2016) these days, most international trade involving import and export of goods and services is guided by the WTO Customs Valuation Agreement (CVA). This Customs Valuation Agreement comprises of six hierarchical/sequential alternative valuation methods. These are:

Transaction Value (Article 1)

Transaction Value of Identical Goods (Article 2)

Transaction Value of Similar Goods (Article 3)

Deductive Value (Article 4)

Computed Value (Article 5)

Residual or Fallback Method (Article 6).

2.4.4 Customs Duty

According to Ethiopian proclamation No. 768/2012 “duty” means any indirect tax or duty payable on raw materials and commodities or accessories imported or produced locally. Taxes applicable on imported goods are import (Customs) duty. Duty is tariff collected on the value of the good calculated on the basis of its actual total costs. It is levied in accordance with the rules of the international convention on the harmonized customs description and coding system.

2.5 Customs Modernization and Automation

2.5.1 Customs Modernization

According to Mengistu, (2016) 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.

To tackle facilitation problem of the country performance measures are very important and adopting experiences of other countries will help for proper evaluation of customs services.

According to the World Customs Organization (WCO), one of the focal issues in international trading is the performance of customs and their efficiency in clearing goods. 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.

2.5.2 Customs Automation

Automated systems in customs are one of the most important tools for simplifying international trade procedures. Automated customs procedures replace the manual processing of customs documents by the computer-assisted treatment of electronically transmitted information. Use of automated customs systems facilitates trade through the normalization of forms and documents, data standardization, simplification and computerization of customs clearance procedures to accelerate the clearance of goods. It also strengthens customs operational efficiency for control by implementing sound procedures and providing full audit trails and mechanisms. Automated customs systems provide governments with accurate and timely statistics on foreign trade and revenue UNCTAD (2011).

The introduction of Customs Automation also stimulates use of information and communications technology (ICT) by other governmental departments and private sector stakeholders, whose activities involve Customs operations. They include various government agencies, importers, exporters, freight forwarders, carriers, Customs brokers, terminal operators, banks, and shipping and insurance agents.

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.

According to UNCTAD Trust Fund for Trade Facilitation Negotiations Technical Note No. 21 published in January 2008, ASYCUDA was believed to contribute to the following major functions in Customs and Revenue Public service delivery. These are:

1. Facilitation of trade through the normalization of forms and documents, data standardization, simplification and computerization of Customs clearance procedures to accelerate the clearance of goods;
2. Strengthening of Customs operational efficiency by providing modern tools and techniques, implementing sound procedures and providing full audit trails and mechanisms for controlling Customs operations;
3. Strengthening Customs management and control by providing Governments with accurate and timely statistics on foreign trade and revenue for trade policy and decision making purposes.

According to UNCTAD (2011) the latest edition is ASYCUDA World, a truly e-Customs version, introduced in March 2002 and compatible with major database management and operating systems (Oracle, DB2, Sybase MS/Windows and Linux, HP-UX, respectively). The use of extensible markup language (XML) permits, at the national level, the exchange of any documents between the national customs administration and traders, and, at the international level, between different customs administrations via the internet. As it uses modern telecommunications systems and devices and installations like VSAT, independent high-speed Internet connections between Customs Headquarters and border posts can be guaranteed.

The transit module of ASYCUDA includes forgery-proof electronic documents, electronic signature, and registration of all transactions. No data re-entry is required by carriers or at border crossings. The system can process transit documents such as the TIR Carnet. It allows for the full integration of transit procedures into the Customs clearance process with transit documents being generated from waybills and export declarations.

Automation reduces corruption by minimizing direct contact between Customs officers and traders, and significantly reduces the potential negative impact of physical inspections. "ICT applications can reduce waiting times at border crossing and at ports, secure appropriate processing of fees and Customs duties, simplify formalities, and provide timely information to transport operators. It also reduces transaction costs, enhances supply capacities, and increases global market access UNCTAD (2006).

Automated systems in Customs provide one of the most important tools for facilitation of trade procedures. Customs automation results in increased transparency in the assessment of duties

and taxes, substantial reduction in customs clearance times, and predictability, all leading to direct and indirect savings for both government and traders.

2.6 Single Window

According to ESCWA (2011) single window is designed to overcome complex system of data submission and regulatory control. It is designed to sit at the national junction of national and international trade data exchange, thereby presenting a single point of access to all other relevant trade systems. While the primary objective is the single electronic submission of data, establishing a single window necessitates a major rationalization of current approaches and requirements to trade administration and operations, especially the reuse, and elimination of duplication, of existing data wherever possible, together with widespread e-Government applications and trade-related ministry and non-governmental organization (NGO) systems.

The single window evolved as a single physical office that was established to handle all formalities, compliance and payment processes. This was commonly known as a “one-stop shop”, or “guichet unique”. Initially, the trade or trade facilitation single window was applied to the trader’s lodgment of customs declarations and ministerial licenses and permits. This has also been called the formalities function or customs and OGA compliance functions. This concept has now been extended to include the complete trade, transport and logistics community so that, ultimately, all border crossings and all forms of cargo shipment are included in the single window system for the electronic exchange of all key public sector and private sector trade documents (messages), licenses, permits and payments all through a single (possibly central) access point, although there are several alternative technology designs.

As stated by Mengistu (2016) in order to ensure effective cooperation and coordination among Customs and other governmental agencies at customs offices, Customs should launch suitable ICT infrastructure that support electronic data exchange for trade facilitation and it should also implement single window system to create a good communication, coordination and consultation system for all stakeholders.

2.7 Customs Clearance and the Single Administration Document

The most important primary trade efficiency reform or system/message change in the formalities process is to replace the complexity and uncertainties that accompany the multiple types of customs declarations, often known as regimes, and their license/permit attachments. This is now widely achieved by use of a single reengineered document, or message type, known as the single administration document (SAD). The SAD is a summary of key data elements from a range of trading documents, license and permit applications and approvals, certificates of origin, and so on. In fact, a typical export needs the submission of the following documents, originals only, multiple, perhaps four copies of each, original signatures on each copy, often known as “wet ink” signatures:

- Commercial invoice;
- Packing list;
- Bill of lading;
- Completed customs declaration, including all requisite permits and licenses;
- Certificate of origin;
- Surveyor’s approval.

2.7.2 Customs Clearance Procedure of Ethiopia

Lodgment of entry, the exporter, importer/agents are required to complete the customs declarations. Beginning from the reorganization of the authority, it is the responsibility of exporter, importer 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 Customs proclamation no. 859 (2014).

Checking of declaration, the face vet officer receive and check the goods of declaration against the document produced whether it is as per the instruction or not, then accept or reject.

Identifying risk level, the risk level of the documents identified using the ASYCUDA++ system to make risk based treatment or control Customs proclamation no. 859 (2014).

An examination of goods, this activity is undertaken by the examiner to assure that the goods and conditions of the declaration are the same with the nature, origin, quantity and value of the goods Customs proclamation no. 859 (2014).

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).

2.8. Risk Management

2.8.1. Customs Definition of Risk Management

"Risk" means the likelihood that something will prevent the application of community or national measures concerning the customs treatment of goods.

Risk management is a technique for the systematic identification and implementation of all the measures necessary to limit the likelihood of risks occurring.

Risk Management is the name given to a logical and systematic method of identifying, analyzing, treating and monitoring the risks involved in any activity or process.

As stated by Mengistu, (2016) mostly, risk management processes are used to route goods through green channel (Immediate release without examination), yellow channel (Documentary check), Red Channel (Physical examination of goods and documents), and blue channel (Examination at a later stage or post audit) after the goods are released.

2.8.2. General Principles for Risk Management

For customs administrations there is always an element of risk in controlling and facilitating the movement of goods and people. The following are considered as general guidelines:

The extent of controls to ensure compliance with the laws and regulations that Customs are responsible for enforcing should be proportionate to the level of assessed risk.

In modern customs control techniques the process of risk management is an important aspect that helps to determine where the greatest areas of exposure to risk exist, and supports management decisions on how to allocate limited resources effectively, so to be implemented.

In managing risk a balance must be struck between costs and benefits, as clearly it will not be cost effective to address all risks equally.

For a good and effective risk management process, appropriate tools and skilled people are needed.

2.8.3. Types of Risks in Customs

Risk management within Customs can be strategic, operational or tactical.

A) Strategic: it is usually longer term strategies risks to customs goals and objectives, e.g., prohibitions and restrictions, (social or economic), health, revenue, environment.

B) Operational: Decisions and action plans on measures taken to deal with the assessed risks. Deployment of resources; monitoring and review.

C) Tactical: it is short term strategies used by officers at their workplace, to deal with immediate situations, working within set parameters and to approve procedures.

2.9 Revised Kyoto Convention

The revised Kyoto convention provides for the simplification, harmonization and modernization of customs procedures. 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 and partnership with the trade.

2.10 Human Resource Capacity Building

In the customs context, capacity building is commonly understand to mean developing or acquiring the skills, competencies, tools , processes and resource needed to improve the capacity of the administration to carry out its allotted functions and achieve its objectives. According to Kyoto convention (2007) the following principles are based heavily on customs administrations should be free of corruption and strive to upload 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.

According to EC (2007); effective development of a human resource management system which supports the achievement of the customs administration's objectives is an integral duty of top and middle level management and the system should explicitly recognize that people are the organization's most valuable resource.

2. 11 Contribution of other agencies to customs delays

According to Buyonge and Kireeva, (2008), even if business peoples usually, thought that, delays are largely caused by customs authority, where interaction with Customs is mediated by customs brokers or clearing agents, business people usually get the impression that delays are largely caused by customs authorities. This 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.

Throughout the clearance process, traders may have to prepare various sets of data or documents and make them available in different formats or use separate access channels for each of the relevant agencies. When goods arrive at the border, traders have to undergo multiple formalities with multiple national agencies who conduct document and physical

checks of the goods, means of transport, and persons accompanying the goods. This often leads to a duplication of effort and processes, such as the presentation of documents and the conduct of inspections. It is common that agencies have different operating hours and are located at different places. Often, specialized agencies, such as veterinary services face staffing problems and delaying necessary inspections until an inspector can be dispatched. This lack of coordination also leads to inefficiencies for the public authorities. The agencies must maintain different systems for collecting data. This is inefficient, since the sharing of intelligence and information on consignments across borders would allow a better targeting of risks Mengistu (2016).

2.12. Customs Laws and Regulations

Tax and Customs laws, regulations, administrative guidelines and procedures should be harmonized and simplified to the greatest extent possible, so that Tax and Customs administration formalities can proceed without undue burden. Complex regulations, procedures or administrative guidelines allow corrupt practices to develop and flourish and those create negative impact on import and export clearance procedures in the process of facilitating legitimate trade. The elimination of red tape includes cumbersome processes that may involve duplication of effort or unnecessary processing procedures. Hence, to make customs laws and regulations predictable, simple, transparent and harmonized adoption of internationally agreed standards including Generally Accepted Accounting Principles (GAAP); HS Tariff Convention; WTO Valuation Agreement; and WCO Revised Kyoto Convention on the Harmonization and Simplification of Customs is an important strategy (WCO, 2005).

2.13 International Trade

The theory of international trade has a microeconomic nature that includes acting with the causes, the structure and the volume of international trade. This theory deals with several directions of international trade such as determination of prices that relative to goods in world economy, international specialization, effects of tariffs and so on Gandolfo (2014).

International trade is the most significant determinant of country's economic development. International trade of a country consists of inbound and outbound movement of goods and services that result into inflow and outflow of foreign exchange. Nowadays international trade is highly competitive and dynamic. It is essential to be competitive in the world market.

International trade is one of the effective instruments of economic growth that should follow changes in market conditions Ramagopal (2006).

When we see economic competitiveness international trade is not a zero-sum game where there are only winners and losers. Comparative advantage and mutually beneficial exchange can enable two countries to gain, rather than one country winning and one country losing. Thus, in the national context, economic competitiveness is more about strengthening economic growth and productivity rather than bilateral, regional, or multilateral competition. Because competitiveness is a subjective not an objective term, it cannot be understood within a mathematical calculation of objective indicators. This differs from nomenclature such as unemployment, inflation, productivity growth, and GDP growth which can be measured objectively.

2.13.1 Trade Facilitation

Trade facilitation potentially covers a multitude of issues that are relevant to the smooth and efficient flow of trade. The term has been used in the context of a broad range of potential Non-Tariff Barriers (NTBs) such as import licensing, product testing and overly-complex Customs clearance procedures. Increased facilitation of trade, by way of ensuring optimal use of IT, should result in improved economic growth for countries and improved competitiveness of their industries by reducing unnecessary bureaucratic requirements Wilson (2007).

To a large degree, trade facilitation can be viewed as an extension of the efforts to liberalize international trade. As history shows, trade facilitation is not a new phenomenon. For instance, many medieval European market towns would publicly display the units and measures used for the sale of goods. In some towns, like Bern in Switzerland, these measures can still be found on display today. In more recent history, trade facilitation has become firmly established within the current international, regional, national, and even at the local level (Grainger, 2008).

Efficient logistics performance is important trade facilitation indicator. The World Bank developed a set of indicators for measuring performance in trade logistics. The Logistics Performance Indicator (LPI) is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance.

Although both the OECD and the World Bank indicators provide useful insight into assessing performance in trade facilitation, the OECD indicators are useful for measuring the overall performance while the World Bank's LPIs are useful for evaluating performance in day-to-day logistical operations. The OECD (2013) trade facilitation indicators include the following:

Table 2.1: Indicators of Efficient Customs Clearance and Trade Facilitation Process

Indicator	Description
Information Availability	Enquiry points; publication of trade information, including on Internet
Involvement of the Trade Community	Consultations with traders
Advance Rulings	Prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements
Appeal Procedures	The possibility and modalities to appeal administrative decisions by border agencies
Fees and Charges	Disciplines on the fees and charges imposed on imports and exports
Formalities – Documents	Acceptance of copies, simplification of trade documents; harmonization in accordance with international standards
Formalities – Automation	Electronic exchange of data; use of risk management; automated border procedures
Formalities – Procedures	Streamlining of border controls; single submission points for all required documentation (single windows); post-clearance audits; authorized economic operators
Internal Co-operation	Control delegation to Customs authorities; co-operation between various border agencies of the country
External Co-operation	Co-operation with neighboring and third countries
Governance and Impartiality	Customs structures and functions; accountability; ethics policy

Source: OECD, 2013

2.14 Potential Challenges of Customs Clearing

Although, African countries have acknowledged the importance of trade facilitation as reflected by the numerous agreements signed at bilateral, sub-regional and regional levels as well as efforts made at country level, most of these initiatives have so far yielded very limited benefits.

The poor results are attributed to several factors such as non-compliance to the agreements, poor program implementation, and lack of coordination among and between countries, lack of coordination among relevant agencies within countries, inadequate skilled manpower and most importantly, lack of a multi-sectoral approach to trade facilitation.

Consequently, trade in Africa is characterized by high transaction costs, accounted for by high transport and communication costs; high charges and delays at numerous roadblocks; long customs and administrative delays at ports and border posts; inefficient international payment and insurance mechanisms; and stringent international trade standards. The quality of infrastructure is a major problem as most roads are dilapidated due to lack of proper maintenance. The problem is more pronounced in landlocked countries as these countries incur high transaction costs not only from their own poor infrastructure but also from that of their transit neighbors ECA (2004).

As stated by Buyonge and Kireeva (2008), Customs administrations in Africa are going through a period of rapid change, 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 benefit of governments and business.

The increasing positive engagement of business with Customs has helped identify major trade facilitation weaknesses that if addressed, can help reduce transaction costs in Africa. These include the lack of a service ethos across all customs management levels, adversarial relationship between Customs and business, insufficient or inefficient supporting infrastructure, lack of a facilitation culture in other government departments, corruption and illicit trade. The challenges present opportunities for businesses to engage with Customs to bring about the desired change

According to Msuka (2013), businesses in Africa perceive the impacts of customs as mostly unfavorable a mixture of obvious and slight impediments. This impact is felt primarily in some

interconnected ways such as costs that can be direct (via fees) or indirect (via extra staff costs) to perform all procedures needed for customs or through storage costs for goods awaiting processing; they can be inflated if the processing time is prolonged; Elongated time due to elongated processing time for imports can lead to shortage of materials hence the operations can possibly stop; and inflexibility as the goods becomes tied up in customs processing are not available for further decision or sale. Other impediments are cumbersome regulatory systems and decentralized documentation processes coupled with bureaucratic clearing procedures; and lack of communication between stakeholders.

According to Abdoulaye Seck (2016), firms in sub-Saharan Africa (SSA) face far greater hurdles than any of their counterparts in the rest of the developing world when it comes to international trade. In effect, it takes the average SSA firm 110.3 h for “border compliance” (handling, clearance, and inspections) and 98.0 h for “documentary compliance” to export a shipment of 15 metric tons of the economy's top non-extractive export product. These figures are respectively 97.8 and 45.4% higher than the corresponding times it takes a typical firm elsewhere to export. Money-wise, border and documentary compliance costs respectively US\$ 552.6 and US\$ 245.8, which are 45.1 and 23.1% larger than similar costs faced by a typical developing country firm. The figures tend to be much higher on the import side: it takes more time (between 125.1 and 165.3 h) and it costs more (between US\$ 360.2 and US\$ 661.1) to import a “shipment (that) consists of 15 metric tons of containerized auto parts for all economies”. They amount to between 1.43 and 2.36 times larger than the costs in the rest of the developing world.

All of these are indicative of the low quality of the trade processes, the large magnitude of the associated costs, and consequently, the low trade performance of firms in the sub-continent as opposed to the outside world. They also tell about the renewed focus on trade facilitation, the first multilateral trade agreement to be successfully concluded since the advent of the World Trade Organization more than two decades ago.

African customs officials are generally well-educated, with a good understanding of the laws they enforce. On the other hand, the level of education and professionalism of the customs brokers that represent importers and exporters does not always match the expectations from customs authorities. This unequal relationship allows manipulation by customs officials of the laws and procedures, which aims at intimidation of brokers with a view to paying facilitation

fees for private gain, or to maximizing revenue collection to meet set targets, both to the detriment of business people.

According to Wondwossen (2013), numerous road blocks, which result in excessive delays and substantial increase in transport costs, continue to pose a serious challenge to trade facilitation in Africa. Customs administrations are characterized by excessive documentary requirements; out dated procedures; lack of automation and insignificant use of information technology; lack of transparency, predictability and consistency; lack of proper compliance handling system, ineffective customs laws and regulations, low capacity of customs officers as well as lack of cooperation with other government agencies. This results in the waste of enormous amount of time and money. These potential challenges are still impediments of Ethiopian Ministry of Revenue.

2.15. Empirical Literature Review

According to OECD (2005) many countries have inefficient border procedures that make traders suffer from delayed and unreliable delivery, costly customs clearance and missed business opportunities. Successfully implemented trade facilitation programs may reduce trade transaction costs, increase customs productivity and improve the collection of trade taxes. Based on the finding the paper concluded that inefficient customs procedures resulted from the inefficient utilization of risk management process, ICT, and poor customs cooperation with business has a negative impact on international trade facilitation.

In addition it is common that in ERCA directives are amended through internal circulars which are not known (are not communicated) to other stakeholders. This creates ambiguity and affects the transparency of customs clearance procedures.

Another factor that affects understandability of customs regulations and procedures is frequent revision and repeal of proclamations. The Ethiopian customs legislation has been revised and repealed five times for the last eighteen years (Proclamation 60/1997, Proclamation 125/1998, Proclamation 368/2003, Proclamation 622/2009 and the current Proclamation 859/2014). Frequent revision of legislations coupled with ERCA“ slow commitment for stakeholders“ consultation and provision of proper training has its own contribution for those regulations and procedures being understood poorly Minwagaw (2016).

According to Keen (2010) Morocco experience on customs modernization in 1996, the average stay of containers in the port at Casablanca was 16 days, of which 10 days were attributable to customs controls. The authorities then embarked on a reform program that embraced all the elements like the customs code was improved, procedures were streamlined and simplified, controls were based on risk assessment, performance standards and effective internal audit were established, effective use was made of information technology, and a consultation process with the private sector was established to resolve potential problems. After three years, the processing time for customs declarations had fallen from ten days to three hours, and after five years 85 percent of declarations were processed in under an hour and a half--all with no apparent cost in terms of customs revenue collected.

From this we can understand that with proper implementation of customs reform the result can be ripped with in three year as stated above. But introduction of customs reform in Ethiopia was more than decade and as stated by Minwagaw (2016) clearing of goods in Ethiopia takes twelve days. This shows customs clearing activity in relation to trade facilitation in the country is still in question.

Tsegaye and Endris (2011) have studied the impact of border clearance procedures on international trade in the case of Ethiopia, Sponsored by the Addis Ababa Chamber of Commerce. The study shows that ERCA undertook a Business Process Reengineering (BPR) study which set a target of eight hours for import clearance in Ethiopia. The import clearance time set by the BPR is the time to clear the goods after the arrival of the goods at the customs clearing stations assuming every documentary requirement fulfilled by the importer. As indicated on the analysis part, the weighted national average clearance time for import goods is 13.8 days.

This does not include the time for other import processes such as document preparation from all regulatory bodies and inland transport from Djibouti port to Kality. Similarly, on average, document preparation takes 8.06 days and inland transportation takes 5 days. The research result also shows that the average total number of days required for the entire import process after the consignment arrived at Djibouti port is 26.86 days.

Regarding single window, increasingly, economies are taking a step further to connect electronically not only traders and customs officials, but all agencies involved in international trade through an online single window system. In the best case scenario, the system allows

traders to file standard information and documents through a single entry point to fulfill all import, export and transit-related regulatory requirements. The single window then shares relevant information with all parties involved in trade, including private participants such as banks and insurance companies, as well as public agencies including immigration and vehicle registration authorities.

In Ethiopia the same series of customs modernization initiatives like computer-based risk management, pre-arrival declaration, AEO program and recently Single Window agreed to be implemented, but proper implementation of these are in question.

Regarding customs role in clearing and facilitation, a number of surveys have been conducted globally. Djankov, Freund and Pham Cong (2006) attempted to determine how time delay affects international trade. But in the case of Ethiopia there are few researches related to the challenges of customs in trade facilitation. Teweldberhan, (2008), Tilahun, (2014), Mengistu, (2016) and Mesfin (2017) tried to evaluate the role, challenges of customs in import trade facilitation.

The researcher tried to see the challenges of customs clearing and their implication on international trade in Ethiopia both in import and export trade, which is not properly addressed by other researchers.

The longer the time taken for import and export clearing process or journey, the more expensive are imports, exports and production that leads to importers and exporters less competitive in domestic and international trade.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

In this chapter research design and the method employed to undertake the actual research work, data gathering instrument applied to the study, procedures used in carrying out the study, sampling, validity and reliability of the study and data analysis method was presented

3.1 Research Design

Research design is the management of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research design implemented in this study was descriptive methods where data that obtained from respondents from the concerned was recorded, described and analyzed. The researcher used the 2018 annualized data of the ECC Branch Customs Offices, which are around Addis Ababa where more than 90% of the country's imports and 80% of export are handled as stated by Tesfaye and Endris (2011). This method was used because challenges of customs clearing can be evaluated and analyzed using main elements of customs procedures like human resource management, risk management, customs cooperation with other agencies, customs rules and regulation and customs valuation etc. by descriptive method.

3.2 Research Approach

In order to achieve the objectives of this study, the researcher has used both qualitative and quantitative (mixed) research methods. 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 methods used, and converge data was 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 approach because challenges of customs clearing could be surveyed, documents were reviewed and questionnaire as data collection techniques were used. In addition qualitative approach was used for interview and primary source of data analysis.

3.3 Research Population

Borg and Gall (1989) define population as all the members of a real hypothetical set of people, event or object to which a researcher wishes to generalize the results of the study.

The target populations of this study are ECC customs officers and officials at Head Quarter, Bole International Airport Cargo, Kality customs stations, Modjo dry port, Importers/exporters and customs clearing agents. Samples were taken from these populations. The sample from ECC employees, importers/exporters and clearing agents taken using cluster sampling technique and convenience sampling was used.

The target population of this research consisted of the 780 clearing agents out of 1,032 licensed in ECC. According to MOT data of 2018 there are 14,685 active importers and 1,483 major agricultural product exporters, since major export of the country is agricultural and semi processed agricultural product, the researcher selected population from these category, customs officers and officials based in four customs stations around Addis Ababa and Modjo dry port also shown below (ECC, 2018).

Table 3.1 Population of the study for Employees, Clearing agents and officials.

Category	ECC Head quarter	Customs stations			Total
		Airport Cargo	Kality	Modjo	
ECC Employees /customs officers/	72	446	344	378	1,240
Officials	11	37	24	23	95
Clearing agents	-	-	-	-	780
Sub Total Population	83	483	368	401	2115

Source: ECC 2018

According to the data collected in December 2018 from the Ministry of Trade (MOT), there are 37,021 registered importers, but there are only 14,685 active importers in the year and

grouped in to 17 major import items based on capital intensity. These are: machinery and mechanical appliances, minerals, electrical machinery and equipment and parts, aircraft and parts, iron and steel, vehicles and parts, cereals, pharmaceutical products, articles of iron, fertilizers, edible oil, textiles, sugars and sugar confectionery, plastics and articles thereof, optical, photographic, cinematographic medical instruments, and others.

Table: 3.2 Population of the study for Major exporters

Category	No of exporters
Cereals	22
Chat	161
Coffee	228
Finished leather	30
Flower	67
Leather product	68
Live animals	65
Oil seeds	259
pulses	357
Spices	205
Tea	21
Total Major exporters	1,483

Source MOT, 2018

As indicated above from different tables, total population from all different categories are 18,283. That is very high population considering researcher time, money and information availability.

3.4 Sampling

It is common practice in research work to use sample in order to generalize about the targeted populations. The size of sample and the technique that used to draw sample from the population, however, depends on the availability of time, money, personnel and information.

In this study stratified sampling technique was used. This is because the population studied was heterogeneous. Stratified sampling technique was used for clearing agents, importers and exporters. From the strata convenience selection was implemented. And also simple random sampling was used for customs officers from strata of different customs stations like Kality, Airport Cargo, head quarter and modjo dry port.

Due to time, money and personnel limitation, using small sample size without compromising its representativeness is customary.

The normal sample size for the total population of this study (18,283) as mentioned above was 391 based on calculation using simplified formula for population Yemane (1967:887). But the researcher selected 73% of the normal sample. Which is 284 samples of different groups. This is because, the highest number of population in the category were importers and exporters, but Ethiopian customs commission (ECC) prohibited by rule direct contact of importers and exporters with customs officers for clearing goods, to reduce unnecessary relationship with officers and to reduce corruption practices. They only assign or higher clearing agents to clear their goods on behalf of them. Due to those reasons the exposure and knowledge of importers and exporters about challenges of customs clearing is less compared to clearing agents and customs officers.

Based on this fact and researchers time and budget constraint, the sample size was reduced to 73% of the normal and taken the following sample sizes from each category. From customs officers and managers of customs, 124 officers and 20 managers from selected customs stations for the study. Most of importers and exporters have no close connection with clearing activities, because clearing activities are being done by their own or highbred clearing agents.

According to the data collected in December 2018 from the Ministry of Trade (MOT), there are 37,021 registered importers, but there are only 14,685 active importers in the year and grouped in to 17 major import items based on capital intensity. And the same data source from MOT 2018 shows there are 2,030 registered exporters. Out of these 1,483 major active exporters of agriculture, processed and semi-processed agriculture products which are grouped

in to 11 product types based on capital intensity. So selection of population was made from both active importers and exporters. Sample selection from each group of importers that is 51 (17*3) and three from each group of exporter that is 33 (11*3) using purposive sampling. Sample selection for customs officer (7 from HQ, 45 from Air Port Cargo, 34 from Kaliti, 38 from Modjo Dry Port and interview for Managers was made (4 from HQ, 8 from Airport Cargo, 4 from Kaliti and 4 from Modjo Dry Port) A total of 284 samples were selected. Open end and semi structured questionnaires were distributed to officers, importers, exporters and clearing agents and 264 properly filled questionnaires were collected. By the researcher's perception the size of sample collected and analyzed should not affect representativeness of the sample to the entire population.

3.5 Data Collection Instruments

The researcher used both primary and secondary sources of information to collect the data. Primary data collected using both open-ended and closed-ended questions and interview questions completed by target respondents from customs clearing agents, traders/importers and exporters/ and customs officers and customs stations managers. The secondary data on the other hand, respondent's data obtained from company profile, published documents and literature, books from library and the internet (e-books) those are relevant to this study. The questionnaires were administered to the respondents through 'drop and pick later' method and face to face interview.

3.6 Data Analysis Technique

In this study both qualitative and quantitative research methodologies were used. The qualitative research methods was conducted through in-depth interview to get objective evidence and evaluate attitude of respondents, the quantitative was employed or data collected through questionnaires regarding the challenges of customs clearing in customs stations to measure results quantitatively to evaluate ranks, frequency ,mean and etc. to reach concluding decision.

The data was checked for consistency, completeness and usefulness; this entailed field edits, data results validation and central editing. Kothari (2004) points out that analyzing research includes, tabulating responses and translating the response into specific categories. This was done on this study to simplify and shorten the time for evaluation. Descriptive statistics

involves the use of absolute and relative (percentages) frequencies, measures of tendency and dispersion (mean and standard deviation respectively), and used alongside the frequencies for Likert items.

Finally challenges of customs clearing and their implication on international trade was analyzed its cost implication based on questionnaire and interviews collected from clearing agents and customs officials.

3.7 Reliability and Validity Test of instrument

The better results came from data which were valid and reliable as depended much on the methods of data collection of this study. The researcher ensured that the data was collected from authoritative personnel with enough working experience within the customs stations, and professionally fit in order to maintain the validity and reliability of the data collected.

1.8. Ethical Consideration

The study undertaken by soliciting the permission of ECC, Anonymity and confidentiality responses obtained from respondents was strictly maintained. Moreover, all sources cited duly acknowledged.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter deals with analyzing, presenting and discussion of research findings based on the fact collected by questionnaires and interviews concerning challenges of Customs clearing and their implication on international trade in Ethiopia. Accordingly, analysis is organized and presented turn by turn and finally, summarized all together.

4.1. Result of the Survey

As indicated in chapter three, the respondents are from four groups such as Customs employees and officials, Importers, Exporters and customs clearing agents those who are working Addis Ababa Kality customs, Airport cargo, head office and Modjo dry port. Data related to their profile was collected and analyzed to know the respondent's age, sex, level of education and work experience.

4.1.1 Questionnaires response rate

A total of 284 questionnaires were distributed and 20 interviewee customs officials were selected and interviewed. In the study, Customs employees, importers/Exporters and clearing agents were addressed. Out of these, 264 responded by completing the questionnaires and 20 customs team leaders were interviewed. This gave the study a response rate of 92.81%. As a result the analysis and interpretation carried out based on 264 questionnaires. To ensure accurate data collection, the respondents were first notified about the study group and the questionnaire was administered on a drop and pick basis. See Table 4.2 under about the questionnaire response rate.

Table 4.2: Questionnaire response rate

Respondents category	Questionnaires distributed	Questionnaires collected from respondents	Percent of Respondents
Customs Employee	124	120	54.45%
Clearing Agents	78	66	25.00%
Importers	51	48	18.18%
Exporters	33	30	11.36%
Customs Officials interviewed	20	20	
Total	306	284	

Source: surveyed from data, 2019

4.1.2. Demographic Characteristics of the Respondents on age and sex

Table 4.1 Demographics of Respondents on age and sex

Category of demography	Interval and sex of categories	Frequency	Percent	Cumulative percent
Age of Respondents	18 to 25	31	11.74	11.74
	26 to 35	152	57.58	69.32
	Above 35 Years	81	30.68	100.00
	Total	264	100.00	
Sex of Respondents	Male	198	75.00	75.00
	Female	66	25.00	100.00
	Total	264	100.00	

Source: Field survey result, 2019

According to the Table 4.1 above; all category of respondents together, age range from 18-25; were 31 (11.74%), age range 26-35; were 152 (57.58%) and age range above 35 were 81(30.68%). When we saw the sex of the respondent 198(75%) were male and 66 (25%) were Female. Regarding the respondents' level of education, 14 (5.30%) were certificate and below, 40 (15.15%) were Diploma, 193 (73.11%) were degree and the remaining 17 (6.44%) were masters.

From the demographic data above, we can see the age distribution of respondents show, 88.26 percent of them are above 25 years. This age maturity of respondents contributed to collect quality and relevant data for the study.

4.1.3. Demographic Characteristics of the Respondents on Education and experience

Table 4.2 Demographics of Respondents on Education and work experience

Category of demography	Interval of categories	Frequency	Percent	Cumulative percent
Education status	Certificate and below	14	5.30	5.30
	Diploma	40	15.15	20.45
	Degree	193	73.11	93.56
	Masters and Above	17	6.44	100.00
	Total	264	100.00	
Service Year	Below 5 Year	36	13.64	13.64
	Between 5-10 years	161	60.98	74.62
	Above 10 Years	67	25.38	100.00
	Total	264	100.00	

Source: Field survey result, 2019

As described in table 4.2 the respondents' work experience; 36 (13.64%) were less than five years work experience; 161 (60.98%) of them were 5-10 years' work experience, and 67 (25.38%) of the respondents have more than 10 years' work experience. From this fact the opinion of all respondents were relevant for the study.

From the demographic data above, we can see the level of education, 73.11% and 6.44% are degree and masters respectively. And also 86.36% of respondents have more than 5 years of work experience. These educational qualification and rich work experience contributed to collect quality and relevant data for the study.

4.2 Challenges of customs clearing on import and export trade

In order to collect information on challenges of customs clearing on import and export trade activities, questionnaires were prepared for Customs employees, importers, exporters and clearing agents that focuses on particular areas like risk management and customs automation

human resource development and management, customs procedure, customs valuation, customs rules and regulation, and cooperation and coordination between customs and other agencies

4.2.1: Cooperation and Coordination of Customs and Other Agencies related customs clearing challenges

Trade facilitation needs an integrated approach because it requires the combined effort and efficiency of a number of government agencies as well as private parties and individuals.

Excessive documentation, physical inspection, and sometimes multiple inspections in the presence of more than one agency cause lengthy delays and cost escalation in customs clearance. The World Bank's Logistics Performance Indicators (LPIs) suggest that customs authorities are only responsible for approximately one-third of the delays that the trading community encounters at the border, and that a number of other government institutions are responsible for the majority of the problems traders face at the border (McLinden et al 2011).

Regarding cooperation Mengistu (2016) stated that when goods arrive at the border, traders have to undergo multiple formalities with multiple national agencies who conduct document and physical checks of the goods, means of transport, and persons accompanying the goods. This often leads to a duplication of effort and processes, such as the presentation of documents and the conduct of inspections. It is common that agencies have different operating hours and are located at different places.

To examine the level of cooperation and coordination among customs and other agencies in Ethiopian Customs Commission /ECC/, Customs employees, importers, exporters and clearing agents were asked to express their opinion on the effectiveness of cooperation and coordination in the country.

Table 4.3: Respondents perception on Cooperation and coordination related challenges

1	Statements	1	2	3	4	5	Mean
1.1	Ethiopian Customs Commission/ECC/ involves and consults trading community regarding evolving customs procedures and clearing processes periodically	28 10.60 %	97 36.74 %	55 20.83 %	67 25.37 %	12 4.54 %	2.71
1.2	There is proper co-operation between ECC and other stakeholders and government regulatory authorities for certification and release of import and export goods.	32 12.12 %	106 40.15 %	34 12.87 %	84 31.81 %	8 3.03 %	2.73
1.3	ECC work jointly with stakeholders to solve clearing problems	43 16.29 %	102 36.64 %	49 18.56 %	62 23.48 %	8 3.03 %	2.58
1.4	ECC have good understanding of stakeholders interest on customs clearing process	21 7.95 %	130 49.24 %	46 17.42 %	62 23.48 %	5 1.89 %	2.62

Source: surveyed from questionnaire, 2019

N.B Strongly disagree= 1, Disagree=2, Neutral= 3, Agree=4, strongly agree= 5

As indicated on Table 4.3 above, for the raised issues like involvement of consultation with trading community 10.60%, 36.74% and 20.83% are strongly disagree, disagree and neutral with mean score of respectively, and 25.37% and 4.54% are agree and strongly agree respectively. These indicate on majority respondents perception regarding consultation with trading community is less and this has contribution for customs clearance delay as confirmed by mean score of 2.71. With regard to cooperation with other agencies 40.15% disagree, 12.12% strongly disagree, 12.87% neutral, 31.81% agree. This cooperation, joint work and understanding of stakeholders interest, customs employees, importers, exporters and clearing agents are responded almost all majority 36.74% disagree and 10.60% strongly

disagree and next majority 20.83% neutral, when we compare the agree and strongly agree in all cases these are smaller than others. This shows cooperation and coordination related challenges are serious and contributed the greatest share on delay of clearing. Considering these views and answers from respondents, it is evident that cooperation and coordination of the ECC with other stakeholders is considerably weak or ineffective and this contributes negative effect on clearing of goods and in facilitating international trade.

This is supported by Tsegaye and Endris (2011), the total number of days required to prepare (collect) the necessary import clearance documents from the different regulatory bodies, without considering the to-and-fro of applicants, is more than eight days. This happens because of lack of proper coordination among those regulatory bodies.

4.2.2 Risk Management and Automation related customs clearing challenges

Risk management technique is a process that is used to route goods through blue, green, yellow and red channels based on the risk level of the goods. To apply proper routing of goods based on risk level, there should be a sound profile development system that relies heavily on gathering, charting and analysis of information from different national and international organizations. And also data profile of traders has to be collected to evaluate trend and history of importers and exporters to decide, to which risk level every trader should be assigned.

In addition to Sound development of risk profile, there should be effectively updated risk profile database for proper risk management technique that reduces trade transaction costs by releasing vast majority of shipments (80-90) immediately after the clearance document has been lodged (EC, 2007).

The current risk management techniques of ECC are mostly implemented manually because risk data profiling is not done properly and did not effectively manage risk and this exposed to personal judgment rather than scientific risk management techniques due to inadequate technological and infrastructural support that have potential to ensure effective information flows and used to develop well organized risk profile database. As indicated in table 4.4 below, the perception of respondents on existence of physical inspection 3.79% strongly disagree, 13.39% disagree, 16.29% neutral, 48.48% agree and 12.12% strongly agree. This shows due to lack of organized risk profile database, inspection system is changed to physical inspection rather than improved scientific risk management system.

Table 4.4 Respondents perception on Risk Management and Automation related challenges

2	Statements	1	2	3	4	5	Mean
2.1	There is single-window service in all customs stations and they are functional	102 (38.64)	96 (36.36)	25 (9.47)	32 (12.12)	8 (3.03)	2.03
2.2	Ethiopian Customs Commission/ECC/ uses in all customs stations electronic exchange of data for customs declaration and valuation.	7 (2.65)	32 (12.12)	73 (27.65)	129 (48.86)	23 (8.71)	3.49
2.3	The use of electronic exchange data has helped to reduce the complexity and help to speed up customs clearing process	6 (2.27)	38 (14.39)	18 (6.81)	146 (55.3)	36 (13.64)	3.41
2.4	Risk management system can precisely label the level of risk at submission of import and export document	-	74 (28.03)	91 (34.47)	80 (30.3)	19 (7.19)	3.17
2.5	There is manual /physical /inspection at customs	10 (3.79)	38 (13.39)	43 (16.29)	128 (48.48)	32 (12.12)	3.36

Source: surveyed from questionnaire, 2019

N.B Strongly disagree= 1, Disagree=2, Neutral= 3, Agree=4, strongly agree= 5

According to ESCWA (2011) single window is designed to overcome complex system of data submission and regulatory control. It is designed to sit at the national junction of national and international trade data exchange, thereby presenting a single point of access to all other relevant trade systems.

As stated by Mengistu (2016) in order to ensure effective cooperation and coordination among Customs and other governmental agencies at customs offices, Customs should implement single window system to create a good communication, coordination and consultation system for all stakeholders.

The perception of respondents for the question to evaluate existence and functionality of single window in ECC, the result shows 38.64% strongly disagree, 36.36% disagree, 9.47% neutral, 12.12% agree and 3.03% strongly agree. The response indicate ECC is not started to implement single window to coordinate and facilitate customs clearing, though different agreements made to start single window in the country to facilitate customs clearing.

An interview made with process owner in Kality Branch regarding risk management showed that, to implement proper risk management technique in ECC, proper data profiling is a must. But the data profile, which is available now is obtained from VDD/ value detail declaration/

and data from ECVS /Ethiopian Customs Valuation System/, which are not fulfil all requirements of data profiling to access all transactions and traders to decide proper valuation and risk levels at this time. We can understand from both questionnaires and interview result, scientific risk management system is not being properly implemented in ECC at this time. So risk management related challenges are one of the problems for customs clearing delay and contributed to the high cost of international trade in the country.

4.2.3 Human Resource Management and Development Related Customs Clearing Challenges

According to USAID (2012) human resource management is the single most important issues affecting the ability of customs to achieve its assigned objectives effectively and efficiently.

Table 4.5 Perception of respondents on Human resource management and development

3	Statements	1	2	3	4	5	Mean
3.1	Customs officers are being given adequate training periodically so that it can help them to understand procedure of import and export and give fast clearing service.	13 4.92 %	90 34.09 %	37 14.02 %	110 41.67 %	14 5.30 %	3.08
3.2	Customs officers have knowledge, skill and capability	13 4.92 %	86 32.58 %	72 27.27 %	76 28.79 %	17 6.44 %	2.99
3.3	Number of staff /officers/resources at customs is at required level	27 10.23 %	101 38.26 %	30 11.36 %	102 38.64 %	4 1.52 %	2.83

Source: surveyed from questionnaire, 2019

N.B Strongly disagree= 1, Disagree=2, Neutral= 3, Agree=4, strongly agree= 5

According to Table 4.5 above, 4.92% of respondents strongly disagreed on the availability of adequate training periodically whereas 34.1 % of them disagreed on the case and 14.02 % of the participants were neutral. The remaining 41.67 % and 5.3 % of the respondents agreed and

strongly agreed on the availability of adequate training periodically at customs offices respectively. It was also validated by 3.08 mean score. This means there is a gap in providing periodic training to customs employees that help them to perform their duties properly and quickly. Concerning the availability of knowledge, skill and capacity that help to provide quick clearing service to customers only 28.79% and 6.44% of the respondents agreed and strongly agreed respectively, the rest of them strongly disagreed, disagreed, and neutral with respective percentage of 4.92, 32.58 and 27.27. This was also supported by 2.99 mean score. For the questions asked to evaluate the sufficiency of number of staff to help fast clearing, 38.64% and 1.52% of the respondents agreed and strongly agreed respectively, 11.36% neutral, 10.23% strongly disagreed and 38.26% disagreed. It was also verified by mean score of 2.83. This implies that majority of employees have gap of skill and capability to handle fast clearing service to customers. In addition lack of effective capacity building program, absence of continuous and periodical training, are the main problems of human resource management and development.

According to interview from team leader in the legal service of Modjo dry port the main reason for clearing delay are customs officers skill problem related to their work, lack of confidence to make decisions due to fear of risk of losing their job and salary difference for similar position that require similar qualification and work experience. This create discomfort on employees moral and initiation. In addition repeated reshuffling of officers from department to department create another delay on clearing until they adapt the new position they are assigned.

4.2.4 Customs Valuation related customs clearing challenges

According to Minwagaw (2016) in the work flow of customs procedures, valuation is considered as one of the most critical work element because, customs duties and other taxes are calculated and paid based on customs value of goods. Valuation problem may not affect only the amount of duties and taxes payable but also the time required to complete clearance process. In other words, it would result in unnecessary delay of customs clearance. One of the reasons for valuation problem could be lack of confidence to put correct value and tariff which also emanates from lack of work related knowledge. Detail results related to the problem on customs valuation has been discussed below.

Table 4.6: Perception of respondents on Customs valuation

4	Statements	1	2	3	4	5	Mean
4.1	In case of slight description difference, customs officials charge higher price to be safe side	15 6.41 %	34 14.53 %	25 10.68 %	101 43.5 9%	59 25.21 %	3.68
4.2	Customs valuation practices are not guided with adequate directives and working manual to avoid arbitrary or fictitious price	9 3.85 %	57 24.36 %	19 8.12% %	138 50.4 3%	19 8.12 %	3.53
4.3	Base price value is higher than the actual value of imported goods.	13 5.56 %	32 13.67 %	50 21.38 %	114 48.7 2%	25 10.68 %	3.45
4.4	There is understanding of valuation and supporting procedures/policies /of customs by officials.	12 5.13 %	69 27.35 %	31 26.92 %	147 35.4 7%	15 5.98 %	3.87

Source: surveyed from questionnaire, 2019

N.B Strongly disagree= 1, Disagree=2, Neutral= Agree=4, strongly agree= 5

As presented on the Table 4.6 above, 6.41% of respondents strongly disagreed on high price charge by officials for slight goods description difference to be on the safe side, whereas 14.53 % of them disagreed on the case and 10.68 % of the participants were neutral. The remaining 43.59 % and 25.21% of the respondents agreed and strongly agreed on the availability of high price charge by officials at customs offices respectively. It was also validated by 3.68 mean score. This shows the existence of customs valuation problems and that leads to customs clearance delay because of disagreement and appeal by importers. Concerning the base price of imported goods higher than base price only 5.56% and 13.67% of the respondents strongly disagreed and disagreed respectively, the rest of them strongly agreed, agreed, and neutral with respective percentage of 10.68, 48.72 and 21.38. This was also supported by 3.45 mean score. For the questions asked to evaluate the understanding of valuation and supporting procedures by customs officials , 35.47 % and 5.98 % of the respondents agreed and strongly agreed respectively, 26.92 % neutral, 5.13 % strongly disagreed and 27.35 % disagreed. It was also verified by mean score of 3.87. This implies that

majority of respondents agreed with the existence of improper customs valuation and that leads to disagreement on valuation and this dispute contribute to prolonged clearance .

4.2.5: Customs Rules and Regulations related customs clearing challenges

According to Mengistu (2016) tax and customs laws, regulations, administrative guidelines and procedures should be harmonized and simplified to the greatest extent possible and from a customs administrator's view point, clear, simple, transparent and predictable legislation creates the framework for the development of systems and procedures that are easily understood by both the trading community and the officials. Based on clear and easily understood legal framework, customs systems and procedures should be in accordance with the internationally agreed Conventions and standards to ensure trade facilitation without undue burden. In other words, complex regulations, procedures or administrative guidelines can encourage trading community to engage in a corrupt practice rather than voluntarily complying and also create bottlenecks for trade facilitation and control (WCO, 2007).

The incompatibility of procedures with local operational practices can be another area causing conflicting interest. Customs, on the one hand need to enforce the law, on the other hand, they may find that is not optimally defined to suit the operational needs of business stakeholders.

According to Mengistu (2016) unclear Customs laws, regulations and administrative guidelines are the main problem for import and export clearance procedures in ECC; because those laws and regulations are difficult to interpret by customs employees, traders and customs clearing agents. Lack of predictability and consistency in customs laws and regulations imposes burdens on the trading community in order to deliver their responsibility.

As clearly presented in Table 4.7 below, some questions were forwarded to examine the application, clarity, consistency and predictability of existing rules regulations and directives of customs. Accordingly 4.55% % of the respondents were expressed their strong disagreement on the clarity and adequacy of rules and regulation to facilitate clearance , 26.14% of them disagreed with its sufficiency to favor facilitation, 11.74% rated neutral, 55.68% agreed, and 5.68% of the respondents strongly agreed on the matter. This was proved by 3.43 mean score.

Table 4.7: Respondents Perception on Customs Rules and Regulation

5	Statements	1	2	3	4	5	Mean
5.1	Existing directive contains detail explanation about import and export clearing procedure	12 4.55%	69 26.14%	31 11.74%	147 55.68%	15 5.68%	3.43
5.2	Custom rules and regulations are clear to understand and implement in import and export clearance process	12 4.55%	68 25.76%	72 27.27%	99 37.50%	13 4.92%	3.13
5.3	Customs law and regulations are harmonized and simplified with international convention of WCO	9 3.41%	56 21.21%	50 18.94%	127 48.11%	21 7.95%	3.35
5.4	Customs rule and regulations are consistent and predictable	21 7.95%	93 35.61%	72 27.27%	66 25.38%	13 5.30%	2.85
5.5	Appeal processes against decisions at customs are clear and short.	65 24.62	99 37.50%	46 17.42%	46 17.42%	8 3.03%	2.37

Source: surveyed from questionnaire, 2019

N.B Strongly disagree= 1, Disagree=2, Neutral= Agree=4, strongly agree= 5

In the same way the respondents were requested to express their consent on the simplicity / clarity of customs laws and regulations. Hence, 4.55% strongly disagreed, 25.76% of the participants disagreed on the simplicity or clarity of customs laws and regulations, 27.27% rated neutral, 37.50% agreed, and the remaining 4.92% of them strongly agreed. This means about 42.42% of the respondents consented on the simplicity and clarity of customs laws and regulation to interpret. This was also demonstrated by 3.13 mean score. Therefore, ambiguity and complexity of customs laws cannot be the major case for the delay of import and export cargo. Regarding to customs laws and regulations standardization and harmonization with WTO and WCO, 3.41% of the participants strongly disagreed, 21.21% disagreed, and 18.94% rated neutral, 48.11% agreed, and 7.95% of the strongly agreed on the issue respectively. This was also validated by mean value of 3.35 concerning consistencies and predictabilities of the laws 7.95% of the respondents strongly disagreed, 35.61% disagreed, 27.27% preferred neutral, 25.38% agreed, and 5.30% of them strongly agreed. It was also proven by 2.85 mean score. Here a considerable number of respondents that is more than 60.83 percent do not accept the existence of consistency and predictability of rules and regulations in ECC.

This is supported by Minwagaw (2016) existence of problem on understandability of customs regulations and procedures due to frequent revision and repeal of proclamations. The Ethiopian customs legislation has been revised and repealed five times for the last eighteen years (Proclamation 60/1997, Proclamation 125/1998, Proclamation 368/2003, Proclamation 622/2009 and the current Proclamation 859/2014). Frequent revision of legislations coupled with ERCA“ slow commitment for stakeholders“ consultation and provision of proper training has its own contribution for those regulations and procedures being understood poorly.

The other issue that has been requested to respondents was clarity and quick response of appeal process against decision made. In the same way 24.65% strongly disagree 37.50% disagree, 17.42% rated neutral, 17.42% agree and 3.03% strongly agree and validated by 2.37 mean score.

From here we can understand that almost 62.15% and 17.42% neutral, which means appeal procedure is serious problem and contribute to customs clearance delay seriously.

In addition to this the customs officials were interviewed to investigate the case and the documents were analyzed; based on all this information it can be concluded that the proclamation cannot be considered as a major hindrances and it is observed that most of the articles in the proclamation harmonized with international agreements. The respondents were similarly asked regarding to the existing directive whether it contains a detail explanation about the import and export clearance procedure.

4.3 Documentary analysis of Risk management levels

In ECC customs stations the time taken for a document based on their risk level is expressed in detail for each breakdown of clearing activities. The procedures are clearly stated including the time needed for that specific activity. The researcher tried to review the time release reports at clearance and comparison of the length of time taken with relation to the standards set by customs based on risk level to evaluate effort of customs for channeling most of clearing items to green and yellow so that goods can be cleared fast.

The sample report is selected randomly from Kaliti customs branch, which is 9 months (July 7, 2018 to March 30, 2019) report. A total of 18,006 items were cleared through risk management channels as shown below on table 4.9

Table 4.9 Analysis of kality customs branch 9 months clearing performance report based on risk management channels

Risk management levels	Clearing performed below standard time	Clearing performed according to standard time	Clearing performed above standard time	Total items cleared in 9 months	Percentage of items cleared from each channel
Green and Blue channel	1634	571	744	2949	16.34%
Yellow channel	3370	3085	1814	8269	45.92%
Red channel	2049	1714	3025	6788	37.70%
Total	7053	5370	5583	18006	100%

Source: Kality customs branch, 2019

As indicated in the (table 4.9 above) the share of total clearing in the report period based on risk levels for green, Yellow and red are 16.34%, 45.92% and 37.70% respectively. This shows the goods channeled to green are only 16.34% and this include duty free and government owned imported goods. Though amount of goods channeled to green for clearing improved compared to Mesfin(2016) study, which was 12.39 % channeled to green in 2016, still small and improvement is minimal. The other two risk levels together are 83.62%. That indicate almost all goods of private sector at this time are channeled to yellow and red, these levels are time taking customs clearing levels.

4.4. Prioritizing the Most Challenging Areas in Customs Procedures

Prioritizing the challenges of customs clearing in import and export clearance procedures based on their importance or significant role they play in solving problems in an orderly manner and it also supports the researcher to suggest suitable recommendation based on the assigned priority. Hence, the respondents request to rank the following challenges.

4.4.1 Prioritizing customs clearing challenging areas by Employees

Table 4.10 Prioritizing customs clearing challenging area by Employees

Category	1	2	3	4	5	6
Risk Management	7.50	10.00	13.33	23.33	19.17	15.83
Customs Automation	0	14.17	8.33	20.00	20.83	26.67
Customs Valuation	26.67	17.50	22.50	16.67	13.33	0.00
Human Resource development	25.83	7.50	5.83	14.17	10.00	17.50
Customs Cooperation with stakeholders	25.00	20.00	19.17	5.83	12.50	10.83
Customs Law and Regulation	3.33	30.0	20.00	3.33	5.83	20.83

Source: surveyed from questionnaire, 2019

As presented on table 4.10, above 26.67%, 25.83% and 25% of employees, agreed Customs valuation, human resource development and customs cooperation with other agencies respectively comes most challenging areas in customs clearing delay. However customs law and regulations was, their second choice (30%), risk management has been ranked 4th (23.33%) and customs automation ranked 6th (26.67%).

4.4.2 Prioritizing customs clearing challenging areas by clearing Agents

Table 4.11: Prioritizing customs clearing challenging area by clearing Agents

Risk Management	16.67	9.09	4.55	27.27	18.18	10.61
Customs Automation	4.55	0.00	6.06	0.00	13.64	28.79
Customs Valuation	40.91	21.21	9.09	9.09	10.61	9.09
Human Resource development	9.09	24.24	24.24	6.06	0.00	18.18
Customs Cooperation with stakeholders	19.70	31.82	13.64	19.70	15.15	0.00
Customs Law and Regulation	9.09	0.00	24.24	22.73	15.15	15.15

Source: surveyed from questionnaire, 2019

As shown on table 4.11, above 40.91% of clearing agents, agreed with the customs employees that Customs valuation is the most challenging area in customs clearing delay. However, customs cooperation with other agencies was their second choice (31.82%), human resource development and customs laws and regulations were together ranked 3rd (24.24% and 24.24%)

respectively, risk management was selected as 4th (27.27%) and finally, customs automation categorized as 6th (28.79%) later both are the same with the choice of employees.

4.4.3 Prioritizing customs clearing challenging areas by Importer

Table 4.12: Prioritizing customs clearing challenging area by Importers

Importers	1	2	3	4	5	6
Risk Management	10.42	2.08	20.83	10.42	18.75	27.08
Customs Automation	4.17	8.33	12.50	10.42	14.58	10.42
Customs Valuation	37.50	22.92	14.58	2.08	6.25	16.67
Human Resource development	10.42	14.58	25.00	18.75	6.25	6.25
Customs Cooperation with stakeholders	31.25	25.00	10.42	4.17	12.50	14.58
Customs Law and Regulation	2.08	12.50	12.50	35.42	12.50	18.75

Source: surveyed from questionnaire, 2019

As presented in table 4.12 above customs valuation was selected as most challenging area by importers and cooperation with other agencies also comes in the first challenging area with slight percentage difference. Human resource development became 3rd and customs laws and regulation was 4th challenging areas with (25%) and (35.42%) respectively. Customs automation became 5th (14.58%) and finally risk management 6th (27.08%).

As indicated from the above three tables (table 4.10, 4.11 and 4.12) regarding to the Customs clearing challenges, from employees, Clearing agents and Importers, respondents prioritized customs valuation in the first place by three of the categories that is Employees, Clearing agents and Importers (26.67%, 40.91% and 37.50%) respectively.

In the other reasons customs cooperation and human resource development in almost all case came next to customs valuation in three of the categories except in case of importers in that case risk management became the 6th category.

4.5 Consequence of Customs Clearance Delay on Import and Export trade

As stated by Minwagaw (2016) among the consequence of customs clearing delay on traders the cost on the importer could be in the form of warehouse fee, breakage & spoilage of goods while in customs warehouse, production interruption, manpower and other logistical costs to finalize the clearance process, high price on the public as the highest consequence of customs clearance delay. The logic behind this outcome is that whatever cost importers pay due to

customs clearance delay, the total cost will be added up to the sales price of goods, product scarcity in the market also considered as the primary consequence and lost business opportunity to the importer as the primary consequence of customs clearance delay. Among the possible consequences presented for rating, there is no single outlier that emerged either as significantly high or significantly low rated result of the question. This signifies that all variables could be affected by customs clearance delay on imported goods.

4.5.1 Analysis of consequence of Customs Clearance delay based on cost implication by clearing agent

Table 4.13 Analysis of consequence of Customs Clearance delay based on cost implication

	Issues and challenge		
No.		Yes	No
1	Increase administration workload and costs	95.83%	4.17%
2	Affect production, sales and promotion plans (Company's image)	87.5%	12.5%
3	Account receivable and cash flow	83.33%	16.67%
4	Customs-port costs (inspection, storage, clearance, etc.)	93.75%	6.25%

Source: surveyed from questionnaire, 2019

4.5.2 Analysis of challenges of Customs Clearance delay and their implication based on cost by importers

Table 4.14 Analysis of consequence of Customs Clearance delay based on cost implication

No.	Issues and challenge	Yes	No
1	Increase administration workload and costs	83.33%	16.67%
2	Affect production, sales and promotion plans (Company's image)	83.33%	16.67%
3	Account receivable and cash flow	90.90%	9.09%
4	Customs-port costs (inspection, storage, clearance, etc.)	87.88%	12.12%

Source: surveyed from questionnaire, 2019

As indicated on tables 4.12 and 4.13 above revealed importers and customs clearing agent's response to a question regarding consequence of customs clearance delays. The purposes of these questions were to explore respondents view regarding possible outcomes of customs clearance delay on importers and exporters or international trade.

Respondents were asked to confirm cost incurred due to delay of customs clearing has impact on international trade. These costs on the importer and exporter could be in the form of warehouse fee /storage and demurrage payment/, production interruption, manpower and administrative and other logistical costs to finalize the clearance process, etc.

As indicated in both tables 4.12 and 4.13 above respondents confirm that all costs are related to delay of clearance and have implication on international trade confirming by more than 80% in all cases.

Therefore it would be considered that customs clearance delay has negative impact on import and export by exposing to higher cost of merchandise, and high production cost other things kept constant. This in turn leads to less competitiveness in the international market.

This is supported by Minwagaw (2016) consequences of clearance delay are numerous that imposed on importers and in turn leads to be a burden of consumers.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

Based on the discussion of the previous chapter, the following summaries of findings were drawn:

The result of this study shows that Customs cooperation and coordination among other government agencies in ECC is one of the most serious challenge as identified earlier and a source of long clearance delay. Respondents confirmed almost all majority 36.74% and 10.60% disagree and strongly disagree respectively on joint activities question and next majority 20.83% is also neutral. This was evidenced by ranking challenging areas, cooperation was the second problem area next to customs valuation. This problem accelerates international trade transaction cost.

Valuation is considered as one of the most critical work element because; customs duties and other taxes are calculated and paid based on customs value of goods. One of the reasons for valuation problem could be lack of confidence to put correct value and tariff which also emanates from lack of work related knowledge.

According to interview during customs Valuation there is rejection of actual price presented by importers and customs authority set its own higher price base value and higher price is considered as right price by customs officials and these troubled the importers when they buy from international market at lower price. This was supported by evidence from questionnaire respondents that 43.59 % and 25.21 % of the respondents agreed and strongly agreed on the availability of high price charge by officials at customs offices respectively.

The current risk management techniques of ECC are mostly implemented manually because risk data profiling is not done properly and did not effectively manage risk and this exposed to personal judgment rather than scientific risk management techniques due to inadequate technological and infrastructural support that have potential to ensure effective information flows and used to develop well organized risk profile database.

Risk management in import and export customs clearing process is considered as one of the challenges next to Customs valuation, human resource development and cooperation and coordination with other agencies in ECC.

As indicated in the previous chapter majority of employees have gap of skill and capability to handle fast clearing service to customers. In addition lack of effective capacity building program, absence of continuous and periodical training, are the main problems of human resource management and development. Human resource development and management problem is the most serious challenge that touches all other areas of customs administration directly or indirectly.

Unclear Customs laws, regulations and administrative guidelines are the main problem for import and export clearance procedures in ECC; because those laws and regulations are difficult to interpret by customs employees, traders and customs clearing agents. Lack of predictability and consistency in customs laws and regulations imposes burdens on the trading community in order to deliver their responsibility.

Ethiopian importers and exporters spend much of their time to obtain a piece of paper from different regulatory authorities. Depending on successful setup and implementation, the single-window service will significantly reduce the time and cost of customs clearance.

There is weakness in involving and consulting the trading community regarding newly evolving customs regulations and organizing relevant trainings to create awareness and to contribute for faster customs clearing.

The other issue evaluated was appeal procedure, for the request to respond clarity and quick response of appeal process against decision made. 24.65% strongly disagree 37.50% disagree, 17.42% rated neutral, 17.42% agree and 3.03% strongly agree and validated by 2.37 mean score.

From here we can understand that almost 62.15% and 17.42% neutral, which means appeal procedure is serious problem and contribute to customs clearance delay seriously.

According to secondary data analysis on risk management ,it indicates that goods channeled to green compared to other risk levels like yellow and red is very small and has no significant improvement compared to previous years with reference to other studies. If more goods channeled to green the clearing time will reduce heavily.

In relation to implication of customs challenge to international trade, respondents confirm that costs that are incurred in the form of warehouse fee /storage and demurrage payment/, production interruption, manpower and administrative and other logistical costs to finalize the clearance process, etc related to customs delay of clearance was more than 80% in all cases.

Therefore it would be considered that customs clearance delay has negative impact on import and export by exposing to higher cost of merchandise, and high production cost other things kept constant. This in turn leads to less competitiveness in the international market.

4.2 Conclusion

The main objective of this study was to identify challenges of import and export goods customs clearance in Ethiopian Customs Commission (ECC) and their implication on international trade, and finally to generate recommendation based on research findings.

As indicated in the summary part of this study co-operation among government regulatory agencies, identifying availability of proper consultation of the trading community, ascertaining clarity of customs rules and regulations, identifying availability and accessibility of regulations and procedures, availability of periodic training to human resource, risk management and automation and customs valuation related challenges that contribute for delay of customs clearing in Ethiopia. .

As indicated above customs valuation is major challenge that contribute for delay of customs clearing and

Valuation is considered as one of the most critical work element because; customs duties and other taxes are calculated and paid based on customs value of goods. Valuation problem may not affect only the amount of duties and taxes payable but also the time required to complete clearance process. One of the reasons for valuation problem could be lack of confidence to put correct value and tariff which also emanates from lack of work related knowledge. This was evidenced by checking respondents confirmation about existence of high price by considering 43.59 % and 25.21 % of the respondents agreed and strongly agreed on the availability of high price charge by officials at customs offices.

Appeal procedure is too long and Peoples in appeal committee were fear each other to give solution for importers complains. From chapter four we can understand that almost 62.15% strongly disagree and disagree and 17.42% neutral, which means appeal procedure is serious problem and contribute to customs clearance delay heavily.

The researcher of this study has tried all possible means and techniques to obtain reliable firsthand information during the data collection phase of the study. The survey data were also

collated very carefully to avoid misleading results and it was analyzed with due care and attention.

Challenges that contribute for the delay of customs clearance also contribute negatively for traders to be competitive in the international market by increasing production, and other costs.

5.3 Recommendations:

The following recommendations have been outlined based on the research findings of the study.

- One of the reasons the longstanding customs clearance delay could not be solved is because regular, adequate and relevant training is not given to employees and other stakeholders. Therefore, the ECC should develop specific training curriculum of the work flow of customs procedures and provide training at a regular interval to its employees at various levels and to its customers, to importers, exporters and clearing agents.
- In order to facilitate clearance process, customs, other agencies and trading community should have consultative and discussion forums in regular basis to solve bottlenecks that arise due to coordination problem. Though the sectors are independent government bodies ECC should take the responsibility to coordinate because all delays arise due to coordination problem were considered custom`s problems.
- ECC should promote public awareness on customs regulations and procedures. In addition to this ECC should involve and consult all stakeholders in the process of revision and amendment of customs regulations and procedures.
- In order to ensure effective cooperation and coordination among Customs and other governmental agencies in customs, Customs should launch suitable ICT infrastructure that support electronic data exchange for trade facilitation and fast clearance of goods.
- Customs should establish a continuous training program on customs laws and regulation to make them easy and simple to interpret for both employees and traders. As much as possible customs should inform the trading community and other stakeholders about any changes and modifications of laws and regulations immediately to ensure consistency and predictability.

- To implementation sound risk management techniques, ECC should administer effective and updated risk profile database.
- Single-Window-Service should be established to solve coordination problems among government agencies and stakeholders to facilitate fast customs clearing.
- To solve problems perceived and responded by respondents by expressing their feeling on the availability of high price charge by officials the data base price currently called Ethiopian customs valuation System (ECVS) has to be based on the manufacture price market of country of origin.
- Appeal procedure has to be shorten and responsive to solve problem of customs clearing delay.

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Addis Ababa University

School of Commerce

Logistics and Supply chain management

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 of Customs clearing and their implication on international trade in Ethiopia*”: which will be used to prepare a Thesis required for my MA degree in **Logistics and supply chain management**. 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 Customs Officer**)

Part 1 General Information

Put tick (√) mark in the appropriate answer box. (Bracket)

1. Gender

Male () Female ()

2. Age

18 -25 (), 26-35 (), above 35 ()

3. Educational background

Below 12 Certificate (), Diploma (), Degree (), Masters (), PhD ()

4. Service year

Less than 5 years (), 5-10 years (), >10 years ().

Part 2

Introduction: Please indicate your consent by using a tick mark (√) the number that best represent how you feel about the challenges of customs clearing and its implication on international trade in Ethiopia

1	Coordination and cooperation of customs with other agencies or organizations Related Challenges	Strongly disagree (1)	Disagree (2)	Neutr al (3)	Agree (4)	Strongly agree (5)
1.1	Ethiopian Customs Commission/ECC/ involves and consults trading community regarding evolving customs procedures and clearing processes periodically					
1.2	There is proper co-operation between ECC and other government regulatory authorities for certification and release of import and export goods.					
1.3	Work jointly with stakeholders to solve problems					
1.4	Have good understanding of stakeholders interest on customs clearing process					
2	Risk Management and Automation Related Challenges	Strongly disagree (1)	Disagree (2)	Neutr al (3)	Agree (4)	Strongly agree (5)
2.1	There is single-window service at all customs stations and they are functional					
2.2	MOR uses in all customs stations electronic exchange of data for customs declaration and valuation					
2.3	The use of electronic exchange data has helped to reduce the complexity and help to speed up customs clearing process					
2.5	Risk Management system can precisely label the level of risk at submission of import and export document					
2.6	Manual /physical inspection at customs/					
3	Human resource Management and development Related Challenges	Strongly disagree (1)	Disagree (2)	Neutr al (3)	Agree (4)	Strongly agree (5)
3.1	Customs officers are being given adequate training periodically so that it can help them to understand procedure of import and export and give fast service					
3.2	Customs officers have knowledge, skill and capability					
3.3	Number of staff/officers/resources at customs is at required level					
4	Customs Valuation Related Challenges	Strongly disagree (1)	Disagree (2)	Neutr al (3)	Agree (4)	Strongly agree (5)
4.1	In case of slight description difference, customs officials charge higher price to be safe side					
4.2	Customs valuation practices are not guided with adequate directives and working manual to avoid arbitrary or fictitious price					
4.3	Base price value is higher than the actual value of imported goods					
4.4	Understanding of valuation and supporting procedures/policies of customs officials/					

5. Customs laws (rules and regulations). Please put thick mark (v)

5	Customs laws (rules and regulations) Related Challenges	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		(1)	(2)	(3)	(4)	(5)
5.1	Existing directive contains detail explanation about import and export clearing procedure.					
5.2	Custom rules and regulations are clear to understand and implement in import and export clearance process.					
5.3	Customs law and regulations are harmonized and simplified with international convention of WCO					
5.4	Customs rule and regulations are consistent and predictable.					
5.5	Appeal process against decisions at customs are clear and short.					

6. Customs procedures. Please put thick mark (v)

6	Customs procedure Related Challenges	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		(1)	(2)	(3)	(4)	(5)
6.1	The document requirement for import and export clearance is simple and clear to understand.					
6.2	The existing customs import and export clearance procedure is well articulated to ensure trade facilitation.					
6.3	There is proper post clearance audit to facilitate trade.					

7. Would you please rank, the following most Challenging /problematic/ area in conducting clearing process? , Start with 1 for most problematic among the challenges.

Challenges	Rank
Risk Management Related Challenges	
Customs Automation Related Challenges	
Customs Valuation Related challenges	
Human resource management and development Related challenges	
Coordination and cooperation with customs and other concerned sectors for clearing Related challenges	
Customs Laws/ Rules and Regulations/ (international conventions) Related challenges	
Customs procedure Related challenges	

8. What are the problems you face in conducting import and export Customs clearance?

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

10. Did you observe any discrepancy between the written formalities, procedures of customs clearing and the practice on the ground? Yes() No ()

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

12. How do you evaluate the procedures and formalities of the Ethiopian Customs Commission/ECC/ in comparison to World Customs Organization's (WCO)?

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

Part 3

Cost implication factor on import and export

Please identify the cost implication factors to importers and exporters due to delay in customs clearance process.

Issues and challenge			
No.	Cost Implication factors	Yes/No	Remarks, if any
1	Increase administration workload and costs		
2	Affect production, sales and promotion plans (Company's image)		
3	Inventory costs		
4	Increase interest expense, if there is a loan.		
5	Account receivable and cash flow		
6	Customs-port costs (inspection, storage, clearance, etc.)		
7	Please add if any other issue or challenge		