



**EFFECT OF EXPORT INCENTIVE ON EXPORT
PERFORMANCE IN ETHIOPIA**

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REQUIREMENTS FOR THE DEGREE OF MASTER OF
SCIENCE IN INTERNATIONAL BUSINESS (MSC)**

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Declaration

I, the undersigned declare that this thesis entitled “**Effect of Export Incentive and Export Performance in Ethiopia**” original work and all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in any other university.

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Statement of Certificate

This is to certify that Samson Beletikachew has completed his thesis entitled “**Effect of Export Incentive and Export Performance in Ethiopia**” is his original work and is submitted for examination with my approval as a thesis.

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This is to certify that the thesis entitled, “**Export Incentive Practices and Export Performance in Ethiopia**” was carried out by Samson Beletikachew under the supervision of Yohhanes Workaferahu (Ph.D) submitted in partial fulfillment of the requirements for the degree of Master of Business Administration complies with the regulations of the University.

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Abstract

In today's challenging and market competitiveness world, the Ethiopian government introduces and implements fiscal and non-fiscal scheme to promote and encourage export trade. The main purpose of this study was to the Effect of Export Incentive on Export Performance in Ethiopia. The researcher used Descriptive and Explanatory type of the research design to explore the relationship between Export Incentive and Export Performance. The researcher used both primary and secondary data. The primary data obtained through a structured questionnaire prepared from export companies whereas the secondary data from reports, published and unpublished documents. The target population was 132 export companies. The convenience sampling technique was used. The study used questionnaires as a tool for data collection. Two separate instruments export incentive practice and export performance Assessment Instrument were used to measure export incentive practice and export performance respectively. In order to test the reliability of the instrument, the Crobach alpha test was the responses of the respondents were analyzed using descriptive Statistics, correlation, and regression. The findings of the study showed that export incentive practice, Such as duty draw-back scheme, the voucher scheme, the bonded export factory scheme, the bonded manufacturing warehouse scheme, the bonded input supplies warehouse scheme; and the industrial zone scheme. Export Performance In terms of value (Total Amount of export per annum) performance linkage as independent variable and as the dependent variable.

Keyword: *Export incentive, export performance, incentive, and export.*

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Abbreviation

AGOA	African Growth Opportunity Act
ARDL	Auto Regressive Distributive Lag
BEFLEX	Benefits for Special Export Programmers Program
COMESA	Common Market for Eastern and Southern Africa
CSA	Central Statistics Authority
Cusum	Cumulative Sum of Recursive Residual Test
DBE	Development Bank of Ethiopia
EIA	Ethiopian Investment commission
ERCA	Ethiopian Revenue and Customs Authority
ECG	Export Credit Guarantee
EBA	Everything But Arms
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic Of Ethiopia
GDP	Gross Domestic product
NBE	National Bank of Ethiopia
MOFED	Ministry of finance and economic Development
OLS	Ordinary Least Square
UNCTAD	United Nations conference on Trade and Development

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Developing countries have a long history of providing export incentives to reduce the overall tax burden on export incomes, thereby enabling exporters to lower prices without reducing their net profits. Over the years, such incentives have taken several forms, comprising both tax and nontax incentives. These include tax exemptions, export finance schemes, and other measures to facilitate exporters and exporting. Apart from the rationale for enhancing market incentives to attract investment in the exports sector, there are also political motives for export incentives because of which their impact in terms of economic distortions – is often ignored. [<https://www.researchgate.net>]

In recent years, export promotion has been the hallmark of most South Asian economies' trade policies. While trade liberalization episodes have generally reduced the anti-export bias, these economies also rely on a variety of direct export measures to facilitate export growth. The overriding principles behind restrictive trade regimes were the protection of domestic industry from foreign competition and the conservation of foreign exchange to support the balance of payments. However, as the South Asian countries transition from development strategies based primarily on import substitution to ones based on export promotion, a number of incentives are being offered to boost exports. [The Lahore Journal of Economics 20:2(Winter 2015): pp.99]

The rationale for using export incentives along with the exchange rate includes, first, the depreciation of the exchange rate, which generally increases the profitability of exports, but runs the risk of leading to more domestic inflation as the prices of essential imports rise simultaneously. Second, the incentive effect is limited in the case of export items that have a high import content. Third, export incentives can be more effective in targeting particular exports, especially emerging and value-added exports. Export incentives persist as the main ingredient of trade policy. At the same time, they are not subject to strict evaluation primarily because their cost is less visible than that of other export promotion policies that involve explicit budget outlays. This argument is rarely articulated, but it does undoubtedly contribute to the political attractiveness of tax incentives compared to alternatives with a direct budgetary impact,

such as subsidies or infrastructure development for industrial zones and others.

Most of the literature on export incentives is linked to the performance of the exports sector and the factors that influence exports. However, the question of competitiveness between different countries' exporting sectors is not addressed in every respect, particularly in the case of developing countries where these incentives act as a "breather" for the exporting sectors. The issue of export incentives becomes more complex when other countries compete for the same export markets by offering a wide range of export incentives, and also because export incentives have a positive impact on exports while causing the government to lose revenue at the same time

The range of export incentives offered in Ethiopia is broad. It includes duty incentive schemes are hereby established, the duty draw-back scheme, the voucher scheme, the bonded export factory scheme, the bonded manufacturing warehouse scheme, the bonded input supplies warehouse scheme; and the industrial zone scheme. The principal purpose of this paper is to compare the export or fiscal incentives given to the textile industries across these three countries, given that they are also competitors in the international export market. The analysis does not utilize traditional measures that involve export shares or relative prices; rather, we have formulated a novel methodology based on measures of competitiveness at the level of a single firm or individual exporter. The comparative analysis will reveal the advantages to Ethiopian export industry and highlight possible measures to address them.

In the past half century, the world has shown a trade reform that involve a shift from import substitution to export promotion strategy. A various literature indicates or suggest that trade plays an important role in economics development. The experience of Turkey that have resulted a boom in the export sector and the Asian countries experience for their wide use of out ward oriented strategy are a few examples.

There has been a wide spread acceptance in policy makers that developing countries should pursue more out ward oriented trade strategy and use of export subsidy. The experience of the Asian's success story is being put as a model for the use of outward oriented strategy in developing countries. On the other hand, various arguments are being forwarded against the use of export subsidy Bahgwati (1988).

Both import substitution and export promotion strategy has been adopted by the governments of Ethiopia to achieve economic growth in the past half century. The imperial regime which lasted from 1930 to 1974 has adopted export promotion strategy in the late 1950's and import strategy in the early 1960's. During the Derg military regime which came to power over throwing the imperial regime redirected the economy along the socialist line and adopted import substitution strategy.

The then military regime came to an end when the Federal Democratic Republic of Ethiopia (FDRE) took power in 1992. Since then the country have adopted market oriented economic policy and undertaken different economic reform programs. As well in recognizing the major role that exports can play in the economic growth the government of Ethiopia as part of its core strategic development which is Agricultural Development Led Industrialization (ADLI) adopted export promotion strategy Samson and Tadele (2002).

Accordingly different programs and plans were designed to increase and diversify the country's export and investment in major exporting and potential exporting areas .This reforms measures range from macroeconomic to sector specific policies. Now day's nontraditional products are gaining much attention from government for the intention of diversifying the country's export. There are nontraditional products appearing in the country's export which are believed to have a considerable potential to draw a significant foreign exchange in the future.

Hence in this perspective the government have been trying to create a good environment for investors and exporters of non-traditional items or product by providing different export and investment incentives. Among these are the two schemes adopted in the year 2001. These are the Export Trade Duty Incentives Schemes and Export Credit Guarantee Scheme. The former scheme allows to tackle input cost problem which allows the refund of duty paid on imported input that are used for the production of exported goods. And the later helps or allows potential markets to be realised by guarantying exporters for the possible risk of default in payment they may face and providing guarantee for exporter so that they can get credit from different Banks who offer export credit.

Government support to exporters is not only accumulated to these two schemes. It starts with facilitating the processes of getting investment license to finding of markets for exporters

product .It is a miracle now days compare to the previous period that it takes at most 3 hrs to get a license at the investment authority provided all the necessary documents. However this paper investigates the impact of the two policies implemented by the government of Ethiopia. With this regard main purpose of this research proposal is to study the export incentive practices on export performance within Exporters.

1.2. Statement of the Problem

Exporting continues to be an important economic activity for most developing nations. It has grown considerably in Ethiopia in recent years following the export-led development strategy adopted by the government of the Federal Democratic Republic of Ethiopia. Exporting incentives are an input once factor of export performance increase, and therefore export promotion is a critical consideration for export performance increase of any country. Many people strongly support export promotion strategy through incentives that benefits both developed and developing countries. Among the usual advantages of the export promotion are foreign exchange earnings, exposure of domestic firms of international market; consequently increase in their efficiency transfer of technology, generate greater capacity of resources utilization of which the economy has comparative advantage, to take advantage of economic of scale, create employment and increase labor productivity, relation of current account pressures for foreign capital goods by increasing the country's external earning and attracting foreign investment and to increase the total factor productivity and consequently the well being of the country (Emilo,2002).

The study conducted by Motswapong and Grynberg (2014) in Botswana shows that textile and close export performance was decreased due to economic crises and phasing out of export incentive. The government provides the incentive to export sector of textile and close like labor grant incentive to skilled and semi-skilled labor, tax holiday and a training scheme to improve the skill levels of the citizens. Phase out of these incentives leads to an insignificant increase in export performance of the country. This indicates export incentive is one factor of the performance of the country's export.

Most of the support programs for exporters that are designed and implemented around the world are various in type .Incentives could be direct cash payments per export sale, duty draw backs, cost sharing, export financing, domestic tax incentives, preferential rates on public utility, subsidized interest rates and so on.

Most of the study done so far focused on some categories of countries or regions either on countries from developed nations (Europe and United States), Asian (Korea) or Latin America (Brazil, Argentina and Costa Rica). Like thus studies by Hoffmaster (1992) on Costa Rica, Helmers and Trofimenko (2007) on Columbia, Desia and Hemes (2003) on America, and Nogues (1989) on Latin America.

However analyses on the impacts or effectiveness of incentives given to exports are limited or non existence for Africa. One study by Low (1982) on the analysis of export subsidy effectiveness in Kenya as it is cited on (Helmers and Trofimenko, 2007; Rodrik, 1993) stand alone for Africa. When it comes to Ethiopia such studies are non existences. Hence this research paper will try to see the impact of the two major incentives that are being used in the country.

Policies are pursued in attending some objectives hence in some way an evaluation should be under taken if the policy in deed hit the intended target or not. In the same token the different export and investment incentives given to exporters should be evaluated. Well this being this developing country's experience with evaluating their policy and strategy has been a different story.

For example in the study of Haque and Kemal (2007) state that Pakistan has been applying export subsidies to exporter for about 3 decades. Until this particular study by Haque and Kemal (2007) there was no systematic evaluation of the programs. This study found that the subsidy schemes that were implemented have not achieved their objective in increasing export, but it took 3 decades to find that.

Even though it is recently that incentives have been implemented in Ethiopia the country shouldn't wait decades to see their effectiveness in achieving their objective, which is most of the time increasing exports and diversification. So it is about time to start gathering information and data to analyze the impact of these incentives on export. This research paper will try to do so.

Hoffmaster (1992),(1994) Helmens and TrofimenKo (2007) and Haque and Kemal (2007) pointed out in their respective studies that export promotion schemes or programs are often complex and are open to potential misuse and abuse which may lead to their infectiveness in fostering exports. And these schemes are costly and are financed by government. Hence a proper handling and follow up is needed or required so to make sure that the money goes where it

supposed to go and avoid a rent seeking behaviour. Hence evaluating the policy through their effectiveness would be one way to go.

In addition it has been stated by different publication that most developing countries especially Africa have gone and still going different trade policy reform. Usually countries like Ethiopia have just started giving due attention to non-traditional product export .Their respective government keeping in mind that this sector could bring in high foreign exchange earning have started giving different kinds of support. So far to my knowledge no study has been done evaluating the different government support given in Africa

More over the studies done so far have not yet analyzed effects of subsidies on export by comparing the actual export with the counter factual export if the subsidy had had not existed. Hence the central contribution of this paper will be its usage of difference-in-difference methodology to investigate the effect of the two schemes on export.

The study conducted by Defeverey and Riano (2012) using a heterogeneous-firm model tried to analyze the economic implication of export incentive in which firms exporting all their output receive an advalorem sales subsidy in China. They conclude about Chinese pure export subsidy leads to welfare loss because of users of export incentives are not productive as that of non-users of export incentive. The industries officially used export incentive provided by the government is not that much productive as that of domestic producers who have not used export incentive. Due to the export incentive the country's revenue undermines and eliminating export subsidy results welfare gain to Chinese citizens in related to trade cost.

1.3. Research Questions

This study targeted to answer the following research questions::-

- Is there significant relationship between Export Incentive and Export performance?
- Which incentive type has more power to influence Export performance?
- Do Export incentive schemes play a significant impact for the export performance of Ethiopia?

1.4. Objectives of the study

1.4.1. General Objective

The general objective of the study is to investigate the effect of export incentive on export performance in Ethiopia

1.4.2. Specific Objectives

To achieve the overall objective of the study, the following specific objectives are developed:

- To investigate the relationship between Export Incentive and Export performance of Export Sector?
- To identify which the incentive type has more power to influence Export performance?
- To analyze the significant impact of export incentives on export performance in Ethiopia

1.5. Scope of the Study

The focus of this research paper is to examine the effect of incentive on export performance and to look at the different types of export incentives in Ethiopia for the period 2011-2020. This study faced challenges from the fact that the export data is not collected primarily for this type of analysis, Therefore the biggest problem of this work is shortage in the availability of data. Additionally, there is also shortage of previous works on this subject matter.

1.6. Significance of the Study

This study is hoped to open doors in the evaluation of different incentive schemes that are being implemented in the country and believed to hold policy implications as well. If the different government support given to exporter contributed to an increase in non-traditional exports then the government can continue what it is doing so far. Other wise the resource used should be diverted to other ways to boost or diversify the export sector.

1.7. Organization of the Study

This paper is organized and presented in five chapters. The first chapter will present back ground of the study, statement of the problem, objectives of the study, significance of the study, scope of the study. Chapter two presents review of related literature The third chapter deals with research methodology, research design, data type and sources, sampling design and procedures, methods of data collection and instruments, data processing and methods of data analysis are incorporated. Chapter four is discussed all, data presentation, data analysis, and interpretation. While in chapter five the conclusion and recommendations drawn from the study depending upon the finding of the study will be conducted.

1.8. Definitions of Terms

Export Performance: Export performance is typical engineering in economic growth of countries and it has importance in the competition among countries. (Gilaninia 2013)

Export incentives: Export incentive increase the company's export success. Export incentives help to companies for overcome these barriers..(Theingi 2011)

Incentive: an incentive as ‘any measurable advantage accorded to specific enterprises or categories of enterprises by (or at the direction of) government’. UNCTAD (2003)

Export: Exporting refers to the strategy of producing products or services in one country (often the producer’s home country) and selling and distributing them to customers located in other countries.P.376, (Cavusgil., 2016).

CHAPTER-TWO

REVIEW OF RELATED LITERATURE

2.1. Introduction

In this chapter discusses the theoretical and empirical Literature review. Under the theoretical literature review the role of export incentive on export performance, definition of investment incentives, classification of export incentives are presented and Empirical evidence of export trade incentive on export growth is presented in the empirical literature review. Research gap and conceptual framework are presented followed Empirical literature review.

2.2. Theoretical Review

2.2.1. The Role of Export on Economic growth

Trade in general and export in particular, has played positive contribution for economic growth. Early economist Adam smith outlined in his classical theory, by opening of extensive market export raises the productive powers, employment, real output and capital in the economy (Adam smith, 1776).following Adam smith, Ricardo (1877) suggest that, the composition of trade is determined by the international difference in relative output ratio factor or comparative advantage.

On the other hand the neoclassical theory suggest that export plays major contribution for economic growth of one country by fostering specialization, helps to benefit from comparative advantage, utilizing full capacity of plant size, greater benefits of economies of scale, increasing rate of investment and technological change.

Giles and Williams (2000:2) emphasize that the neoclassical stand has been that growth of Hong Kong, Singapore, Korea, Taiwan, Malaysia and Thailand was propelled by export led growth. According to Felipe (2003:6) Germany, China, Japan and Taipei are miraculous countries which were able to expand output as well as employment through ELG.

Krueger (1980, 288) countries adopting export oriented strategy have in most cases grown rapidly and have seen expanding in tradition exports and nontraditional exports. (kissing, 1979: Balassa, 1983: Kruger, 1978, 1980 & Bhagwati,1978i) indicate in their studies that nations

which adopted outward oriented development strategies fared better in terms of economic growth, employment, economic efficiency and adjustments to external shocks than those engaged in inward-looking strategies. Similarly Balassa (1986) and Dollar (1992) also argued that outward-oriented developing economies attain definitely much more rapid growth than inward-oriented developing ones.

Khan and Zahler(1983) outward-oriented strategies have been characterized by the provision of incentives of production, encouragement of import competition for most domestically produced goods and the use of floating exchange rate.

Export development is highly observed by policy makers and researchers due to the important macroeconomic and microeconomic benefits derived from external trade. From the micro economic point of view exporting can allow national economies to enrich foreign exchange reserves, create and provide employment, create backward and forward linkages and guide to standard of living Czinkota, Rivoli and Ronkainen (1992).

Similarly Coutts and Godley (1992) suggest that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced indigenously.

Samad (2011:92) explains exports are part of the determinants of GDP because a rise in export increases GDP or output, everything else remaining unchanged. In other words an increase in export directly increases employments in exporting industries which in turn leads to a raise in GDP. In addition to this exports support foreign exchange generation and in turn facilitate the importation of intermediate and capital goods which stimulate domestic growth.

On the other hand Torstar and Sarthy(1994) explain the importance of exporting in the case of microeconomic, exporting can give individual firms a competitive advantage, increase capacity utilization, improve their financial position and increase technological standards.

Export expansion promotes economic growth through increase in total factor productivity. According to Feder (1983), Krugman(1985), Chuang(1988), Reizman et al(1996) expansion in export may promote specialization in sectors for country has comparative advantage, can increase productivity by offering larger economies of scale, increase competitiveness, facilitate

transfer of knowledge, international market, managerial and technological skills..

Export sales increase, other things being equal, the GDP of a nation will rise and provide a stimulus to improve economic well being and society prosperity. Marin (1992) explained the relationship of export and GDP that export performance has a simulating effect throughout a country in the form of technological spillovers, support product and process innovation activities, increases specialization by encourage profitable exploitation of economies of scales. According to ZafarU.Ahmed et al. (2006)in 1998 the export-GNP ratio for Malaysia was 84.3% indicating how much the Malaysian economy relies on export.

Broadly speaking, the expansion of a countries export has positive effect for the growth of one country economy. Export is important for one country's economic growth. Export boosts profitability, provides employment, improves trade balances, and improves nation's living standard, increases knowledge spill over.

2.2.2. Definition of Investment incentives

Investment incentives are measurable economic advantages that governments provide to specific enterprises or groups of enterprises, with the goal of steering investment into favored sectors or regions or of influencing the character of such investments. These benefits can be fiscal (as with tax concessions) or non-fiscal (as with grants, loans, or rebates to support business development or enhance competitiveness).

According to Zahir (2003), incentive for investment is associated with lots of benefits if allowed to operate. Some of the benefits that are derivable from a successful incentive regime include, among others, offering incentives to boost those sectors that are strategically crucial for promoting export, generating employment, developing skill and adding value to domestic activities.

Holland and vann(1996) stated that developing and transitional countries offer incentives for purpose of promoting investment. The incentives are often directed to foreign investors on the ground that there is sufficient domestic capital for desired level of economic development and that the international investment brings with modern technology and management technique.

The work ability of incentives depends on some factors namely: the circumstances of the economy, the competence of the tax administration, the type of investment being encouraged and the budgetary constraints of the government. Therefore, an effective and efficient incentive must have been the ability to stimulate investment in the desired sector or location, with minimal revenue leakage, and provides minimal opportunities for tax planning, it must be transparent and easy to understand, and must have specific policy goals.

Incentives must not be subject to frequent change, and must provide investors with certainty over its application and longevity. It must be developed, implemented, administered and monitored by a single agency, and must have low administrative costs for both governments and firms. In addition, it must be followed-up and monitored in order to ensure that the incentive criteria are met. According to UNICTAD (2000) incentives imply financial as well as Administrative costs if incentives are designed, granted, implemented and follow up of compliance by firms that have benefited from the incentive measures. The four broad steps involved in incentive police by United Nations conference on Trade and Development (UNICTAD, 2000) are:-

a. Incentive design

The very first step required in designing incentives are ,we should have to clearly list and analyze the market imperfections and the extent of the imperfections that the incentives are designed to reduce or eliminate. The costs of granting incentives can then be compared to the benefits of removing or reducing the imperfections. Otherwise the cost of administering the incentives can be hard to manage (James, 2010).

1. Incentives should be granted automatically

Eligibility for incentives provided by law should be based on clear criteria, not granted through special permission or certification by investment promotion agencies, ministries of trade, or other government agencies. This approach ensures prompt decision making and quick turnaround times for investors essential to attracting and retaining investment. This step also can slightly show the investment environment i.e. the corruption level or office bureaucracy.

2. Implementation

The tax administration should ensure that investors receiving tax incentives satisfy the requirements for them. To enable them to do so, it should be compulsory for tax returns, declarations, and relevant forms to be filed regularly for investors to receive tax benefits. Tax incentives should not be used as an excuse to avoid tax administration, information, audits, and any other compliance requirements. Fiscal authorities are advised to devote sufficient measures to prevent firms from using incentives to facilitate tax avoidance and evasion (Eisner, Albert & Sullivan, 1984).

b. Reexamination

Periodic review of the incentives by Governments offers a potential double benefit. On the one hand, it can help Governments prevent revenue leakage by eliminating excessive incentives or unnecessary tax breaks to investors. On the other hand, it can help them update incentives packages to provide real value to investors that will attract more investment.

i. Objectives of Investment Incentive

The aim of investment incentive is to increase nation's revenue by attracting foreign and domestic investors by creating favorable investment conditions. According to UNICTAD (2000) the objectives of investment incentives are:-

ii. Regional Investment

Countries often employ a mix of incentives to channel investment for development of a particular area of region. Regional development objectives include support rural development (electricity, roads, telephone and water supply, education, etc), building industrial centers outside major cities and reducing environmental hazards, over-urbanization and concentration of population.

iii. Sectoral Investment

Countries employ tax incentives in order to promote sectors of industry or activities considered crucial for development. These may be targeted at mining and industrial parks, export-led activities, the film industry and businesses with new technologies.

The majority of tax incentives granted by developing countries relate to investment in manufacture, exploration and extraction of mineral reserves, promotion of export and, increasingly, the tourism and leisure sectors.

Performance enhancement

Incentives can be targeted at many types of activities, such as export promotion, employment/skills training, and domestic value added and headquarters location. Free trade zones (FTZs) typically cover incentives for export-oriented manufacturing.

Technology Transfer

An important objective of using incentives to attract investment to developing countries is the transfer of technology. This helps domestic firms to be more competent for the international market and also professional they will get knowledge of hi tech technologies easily without going abroad. Furthermore, governments can save foreign currency that is spent for training and other related costs.

Classification of Export Incentives

According to WTO (2006) defines export subsidies as a benefit –conferred by the government to a firm that is contingent on exports. An Export subsidy can be in the form of Government transfer to selected entities (Cash subsidy, tax exemption, duty suspension, preferential tax treatment, etc), a regulatory policy (like protection of border, border tax adjustment, etc) and the provision of public goods at no cost below market price for exporting firms.

Incentives are frequently used as a policy instrument to attract FDI and to benefit from it. They can be classified as financial, fiscal or other incentive. Incentive can be a tool for countries to pursue their development strategies. If used properly, they can compensate for some deficiencies in the business environment that cannot easily be remedied. It can also correct the failure of markets to capture wider benefits from the externalities of production and divert the financial resources that could otherwise be more effectively used for development purposes (UNCTAD, 1996).

2.2.3. Fiscal Incentives

Fiscal incentives are considered as an important element of economic policy simulation used in most countries, especially in developing countries to attract domestic and foreign investment. According to the United Nations conference on Trade and Development (UNCTAD, 2000), fiscal incentives are chosen by most developing countries because they serve as measures for reducing the burden on investment under taking and a means to induce foreign investors to invest in specific sectors or location in an economy.

Furthermore, Philips (1996) stated that fiscal incentives are common in developing countries because the incentive has no direct drain on the government resources. Fiscal incentives are used to increase the after tax returns of companies in the form of tax holidays and depreciation allowance. Fiscal incentives describes as a tax concession or non –fiscal benefits in the form of grants, loans or rebates to support business development and enhance competitiveness.

Fiscal incentives describes as tax and non-tax incentive. Tax incentives provide indirect support to investors in the form of tax breaks, access to subsidize credit and lower customs tariffs and on the other hand non-tax incentives offer direct support to investors in the form of construction and rehabilitation of infrastructure and facilities (Built of export processing zone and Industrial zone).

According to Zee, Stotsky&Lee (2002) fiscal incentives sometimes classified as statutory and effective. Statutory fiscal incentives are specialized tax reduction granted to qualified investment projects from other reduction applicable to investment projects in general where as effective fiscal incentive described as special tax provision granted to qualified investment projects which has the effect of lowering the effective tax burden.

Fiscal incentives to investments however are not without cost. The most obvious cost would be forgone revenue. But if fiscal incentives are properly designed and administered and are ultimately able to achieve the ends for which they were created, then those forgone revenues shall have been offset by the expanded tax base that those investments have created. The idea is to forgo revenue today in order to encourage investments that will in turn spur employment, exports, upstream and downstream linkages, and economic growth, which all in all will provide government a wider array of economic activities that it can tax. However, if those fiscal

incentives are ill-designed or improperly administered, then the country will find no future economic activity to offset the forgone revenue.

According to Kuewuni (1996) argues that fiscal incentives are revenue loss to the government; therefore if such incentives are not properly paying attention the revenue loss could be harsh. Fiscal incentives used for export activities are the following:-

1. Duty exemption and Duty drawbacks: - In duty exemption scheme, exporters are exempted from paying duties or indirect taxes on imports in the production of goods that are subsequently exported. By comparison, a duty drawback scheme refunds the duties and indirect taxes that were paid on imported inputs used in producing the exported products. A firm imports an input which is used in the production of an export product; the payment applicable for imported duties and indirect taxes for the imported input is either waved (in the case of duty exemption) or refunded to the exporters once the final product is exported (in the case of duty draw back).

Duty draw back Schemes are quite cumbersome because Duty exemption/drawback requires strong administrative abilities otherwise export incentive through this instrument can have unaffordable costs. Although most tax benefits targeting EP have been prohibited by the WTO subsidies code, duty drawback not exceeding the amount of duty actually levied on the imported product has been permitted.

1. Export Processing Zones(EPZ) and Bonded Manufacturing Warehouse(BMW):

These two instruments are formed to separate export activity from domestic market restriction. EPZ are intended to facilitate by providing services like water, power, telecommunication, containerized cargo facilities and the processing of imported materials for export. EPZ ensures the quickest access to free trade to exporters within designated area.

According to OyejideA (2007) the policy measure built into the EPZ zone includes realistic exchange rate, free access to raw materials, inputs and capital goods at world price, easy access to investment licensing and financing the creation of export production, generous and long term tax holidays and concessions as well as no limitation on foreign ownership of the firms or the repatriation of profits. EPZ are not effective to promote export unless infrastructure and other facilities are provided adequately.

According to Di Maio(2009) explained that most countries experiencing EPZs, for attraction of foreign firms primarily committed to advantage of tax treatments and because of this reason positive effects have not materialized at a national economy wide level.

2.2.3. Fiscal Incentives in developing countries

Assessing the relative advantages and disadvantages of fiscal incentives is a complicated and controversial issue (James, 2009). The main difficulty in assessing their benefits is in determining if incremental investment is indeed the result of incentives. It is generally recognized that incentives are not the prime determinant of investment decisions. If investment is in fact the result of incentives, difficulties arise in quantifying the positive effects, such as technology transfer or creation of employment, and possible negative effects, such as economic distortions or potential for corruption.

According to UICTAD (2000) the legal instruments granting tax incentives are drafted carefully so that they achieve policy objectives with a minimum leakage of tax revenue. They are expressed as precisely as possible so as to avoid the need for frequent corrections or changes. It is believed that frequent changes could contribute to the perception that the tax system is complex and difficult to comply with. Apart from the tax incentives regime, stability and predictability of the tax system are major factors influencing firms when they commit to long term investment.

Table 2. 1 shows The types of fiscal incentives granted by developing countries with incentive period along with its advantage and disadvantage are summarized below:-

Incentives	Description	Advantages	Disadvantages	Developing countries Example
Reduced corporate tax	lower corporate tax	Distortions minimized	has to be below 35% to be effective	All \leq 30%: Botswana, Korea, Nepal, Nigeria,
Rate	rates	longer benefit period flat tax rates reduce confusion	rewards old capital	Peru, Singapore, Sri Lanka, Tanzania, Uganda Flat tax rates: Poland, Romania, Russia, Slovakia, Uzbekistan
Sectoral incentives	reduced corporate tax rates for certain sectors/ activities	signaling effect of government commitment easier to implement	May distort market	Botswana, Brazil, Ecuador, Egypt, Ethiopia, Ghana, Korea, Lesotho, Mauritius, Nepal, Nigeria, Peru,

				Philippines, Singapore, Sri Lanka, Tanzania, Uganda, Uzbekistan
Tax holidays	period of tax exemption/ reduced tax	flexible, can be used to targets certain industries immediate benefit to income-earning firms	discretionary approach → distortions, potential for mismanagement favors existing firms over start- ups can lead to tax leakage and avoidance through transfer pricing rewards short term investment in “footloose” industries	(Years in brackets) Brazil (15), Ecuador (20), Egypt (5-20), Ethiopia (1-5), Ghana (5-10), Kenya (10), Korea (5) , Mauritius (10), Nepal (5-10), Nigeria (3-5), Philippines (5), Singapore (5-10), Sri Lanka (5), Tanzania (2- 5), Uganda (10), Uzbekistan (7)
Investment tax allowances/cr edits	tax credit/ allowance for investment expenditure	Supports expansion in existing firms encourages long term investment less revenue leakage		Ecuador (tourism), Korea (6-10%), Mauritius (antipollution), Mexico (19- 25%), Nigeria (5- 20%), Philippines (75- 100%), Singapore (33-50%)
Accelerated depreciation	Depreciation deductions are calculated over a shorter time period	Supports expansion in existing firms encourages long term investment less revenue leakage	Eroded by high inflation	Botswana, Brazil , Ecuador (5-10%), Egypt (5-10%), Ethiopia, Ghana (5- 20%), Kenya, Korea, Lesotho (5-25%), Mauritius, Mexico, Nepal (5-25%), Peru (3-20%), Rwanda (5- 50%), Singapore, Sri Lanka, Tanzania (25- 100%), Uganda (5- 20%)

Input sales tax credit	tax credit against input sales tax, especially on capital goods			Argentina, Chile, Peru
Loss carry forward	write-off of losses against grossprofits of following years			(years in brackets) Botswana (5), Brazil (4), Egypt (5), Ethiopia (3-5), Ghana (5), Kenya (unlimited), Korea (3), Mauritius (unlimited), Mexico (4), Peru (4), Rwanda (5), Singapore (unlimited), Sri Lanka (6), Tanzania (5), Uganda (unlimited)
Export/import Incentives	exemption on customs duties, zero-VAT rating on exports, export marketing assistance	can be used to target sectors	restricted by trade treaties dependent on capacity of customs administration	Botswana (duty exemptions) , Brazil, Ecuador, Egypt, Ethiopia, Ghana, Korea, Lesotho, Mauritius, Mexico, Nepal, Nigeria, Peru, Philippines, Rwanda, Singapore, Sri Lanka, Tanzania, Uganda, Uzbekistan
Subsidies/ grants	outright grants, upfront subsidies and subsidized loans	flexible, can be used to target sectors	high upfront Costs dependent on capacity of tax administration open to abuse	Rural telecommunication development: Peru, Egypt, Uganda, Nepal
Regional incentives	grants/ tax allowances/ subsidized loans/ infrastructure provision when investing in certain regions	flexible, can be used to target regions	dependent on capacity of regional administration open to abuse	Brazil, Ecuador, Egypt, Ethiopia, Ghana, Mexico, Nepal, Peru, Rwanda, Sri Lanka, Tanzania, Uganda

(Source: - UNCTAD policy review series; Biggs, 2007, Morisset and pirnia, 2000)

Financial Incentives

According to Garcia(2007) explain that the objectives of financial incentives is to allow companies to be able to depend on more appropriate conditions to allow them to face international competitiveness and makes it possible for them to boost their investments. Such incentives are provided in the form of Direct/Indirect Cash subsidies, export credit facilities for pre-shipment and post-shipment transactions, special foreign exchange allocation and remission of tax normally chargeable on profits.

According to UNICTAD (2000), developed countries more frequently employ financial incentives such as grants, subsidize loans or loan guarantees because financial incentives are a direct drain from the government budget.

OyejideA. (2012) explained that financial incentive are autonomous and complementary measures aimed at providing special incentives for export activities that are not necessarily related to any disincentive that would be associated with the prevailing trade, investment and exchange rate regimes. Key among these are special export financing scheme that may be needed to assist exporters in low income countries which lack well developed financial system (Demirkung-kunt and Erzan, (1991);Harrold et al,(1996).

One of the special schemes for special export financing schemes is the provision of easy access to financing at affordable interest rate for exporting activities. According to Erzan (1991) financial access through affordable interest rate enables exporters to eliminate their financial constraints. Moreover, different countries provide financial incentives scheme for helping exporters cope in respect of the risk associated with non-payment by their foreign buyers, as well as their own failure to deliver the ordered goods. Among the financial incentives commonly practiced and granted for exporters are:-

1. Direct Subsidies: - These exemptions are given to favor export activities like non- traditional exports. All nontraditional exports become eligible for a direct tax exemption but there is an issue of how the subsidy is financed if the subsidy increases the target export and the cost of achieving the increase is corresponding with increase of exports. Latin American country Brazil increases its export by using direct subsidies where as Cost Rica, Mexico, Colombia and Argentina fail to use these subsidies. Similarly like Brazil, East Asians countries Korea and Taiwan registered impressive success with direct subsidies.

2. Credit Subsidies: - the role of this subsidy is to provide increased access; charge lower interest rates for export financing compared to other credit and extend the maturity for loans to buy capital goods for export activities. Export credit may be in the form of supplier credits (Credit granted by an exporter to a foreign buyer) or a buyer credits (The exporter gets in contract with a buyer which is financed by a loan agreement between a bank in the exporter countries" and a bank in the buyer"s country). The aim of this subsidy is to offset a bias against for export financing in underdeveloped market because exporting at early stages are more risky than producing for the domestic market.

Credit subsidies are not the most appropriate instrument to promote export. These subsidies are easy to abuse, more difficult to target and monitor. Most problems rise with credit subsidies are cost associated with perceived high risks, limited information, and poorly developed markets, government policies excluding lending to new exporter customer due to interest, reserve requirement and portfolio controls. Melo,(2001) reports that in Latin America out of 26 countries 14 countries are provided credit subsidies to exporters through their institution .

2.2. Empirical Literature

2.2.1. Empirical Evidence of Export Incentives and Their Role in Export growth

Several studies are carried out to investigate the contribution of export incentives on expansion and growth of exports in the case of country and firm level. Among the research studies analyzed and presented in different publication and used as an empirical evidence for these studies are:-

During the period of 1962-1980 the Korean government provided fiscal and financial incentives as well as established export promoting organization. As a result of this export values rose significantly. The study indicate that from 1962-1982 the average rate of export growth was about 30% a year with peaks of over 50%.similary the nation"s annual export value extremely reaches from US\$ 55million to US\$27 billion in 1962.the ratio of export to GNP also reaches from 1% to 30% in the 1970"s.

Alvarez and Crespo (2000) examine the impact of activities performed by Chile"s export promotion agency, PROCHILE using 365 firms a sample out of a population 7,479 exporting

firms over the period 1992-1996. Based on the result the instrument used by this agency had a positive effect on diversification of products in four years. grants aiming at increasing investment technology, training and physical capital are effective in increasing total exports of already existing firms but not in encouraging new firms in the internal market.

Chandra and Long (2013) using firm level panel data in 2002-2006, find that in China the amount of export increased by 13% of export for each point of increase in vat rebate (there is additional \$4.7 of exports gain for each of \$1 of export tax rebates paid). Similarly, Gordon, Monjon and Poncet (2014) using HS6 product level data for the period 2003-2012, find that in China a one percent increase in vat rebate leads to 7% increase in export quantity (Sevetlana, 2015).

Mah (2007) examines whether duty drawbacks, which China has used since **1985**, have had a significant positive impact on its exports. Applying co-integration tests to an annual dataset for 1979–2001, he finds that duty drawbacks do not promote exports to a significant degree. This may be due to inefficiencies such as false reporting, payment uncertainties, and delayed reimbursement of import duties – all of which are often major problems of the duty drawback system in developing countries.

Lederman et al. (2008) analyze 88 developed and developing countries using survey data and the result of the finding revealed that the activities of export promotion agencies have a strong and statistically significant impact on the countries total export volume.

A comparative study on 11 nations (India, Korea, Singapore, Yugoslavia, Mexico, Colombia, Chile, Brazil, Argentina, Taiwan and Israel) was carried out by (Balassa, 1978). In his study he grouped these nations in four groups depending on the timing and the extent of the export promotion schemes practiced by these nations. Mixed findings were established but in general in an inter-country situation; export promotion was associated with economic growth performance, in the individual countries he found out that export promotion schemes accelerated economic growth.

Hashim and Hassan (2008) analyze the effect of fiscal and financial incentives on export by taking surveys of Malaysian small and medium enterprises. The result of the survey showed that a set of incentives offered by The Malaysian External Trade Development Corporation has played a positive role of increasing exports.

Volpe Martincus et al. (2010) in his analysis for the Latin America countries, Costa Rica and Peru incentives helped local firms to increase their export through diversification.

Using data for the period 1964 – 1980 Jung and Lee (1986) showed that a 1% increase in subsidy(which comprise preferential export finance, tariff reduction and exchange rate changes) would bring about 2% increase in the amount Korea's manufactured export supply. However, their measure of export subsidy includes neither export insurance nor duty drawback. In another study, thus, Mah (2006) indicates that duty drawback scheme was effective in promoting export supply of Korea during 1975 to 2001.

A different study done by (Mah, 2006) on export promotion policies in Korea; studied the impact of financial incentives on export programs and establishment of free trade zone on export volumes of Korea; then he found out that the Export promotion policies contributed to the expansion of export values. Exports of manufactured products had increased significantly during the 1960s and 1970s when these schemes were introduced. The share of exports of more value added capital intensive and technology intensive products had risen since the 1970s. According to (Mah, 2006) rapid increase of export values appeared to have led to economic growth of Korea, supporting the export-led economic growth strategy.

Similarly, Wu and Chuang (1998) found that Korea and Taiwan have used duty drawback schemes effectively. Strong administrative ability, and an overriding commitment and determination of leadership to meaningful economic development, which, few less developed countries appear capable of making, are the main factors for the success of Korea (Evans, 1998).

Haque and Kemal (2007) show that over the long run, export financing scheme in Pakistan had a negative effect on exports while the rebate/refund scheme affected exports insignificantly. In Turkey's case, Arslan and van Wijnbergen (1993) find that export incentives and the exchange rate contributed 20 percent to real export growth during 1980–87, where exchange rate depreciation was the most influential factor. Abeyasinghe and Yeok (1998) show that exchange rate changes have less impact in the case of exports with a higher content of imported inputs Low (1982) documents the failure of subsidy scheme in Kenya is in connection with the poor implementation and the discretionary choices made by the bureaucrats in the allocation of government grants.

Hinkle et al. (2003) Senegal implemented effective programme for refund of vat on domestic and imported inputs used as an input for export. According to his study this measure document has positive effect only these countries and in the rest of other countries the case testifies negative or nil results.

According to Athukorale and Rajapatirana (1993) Latin American countries Colombia and Venezuela has failed to use credit subsidy. The main reason for their failure is that in the Columbian side during the period 1980-1984 the export subsidy target decline when the export subsidy reached on the maximum level on the other hand Venezuela unable to carry out this subsidy because of incurring large foreign debt mostly from export incentive.

Similarly, Nogès (1989) investigated the Latin American export subsidy practice during the 1960th and 1970th. He found that the export subsidies reduced only marginally the anti export bias of Latin American countries since the subsidies were not supported by other policies conducive for export. Particularly, the result stated that export subsidies improved exports in Brazil as well as liberalized imports significantly, stabilize real exchange rate, and promote other policies conducive to export growth.

In the case of Africa due to lack of transparency and monitoring of incentive systems, Administrative bureaucracy and government political tendency export subsidies are not successful to increase export performance except few countries. Harrold et al (2000) is critical of African investment codes which place heavy reliance on fiscal and other incentives which may be largely ineffective in attracting FDI and are at the same time quite costly in terms of lost revenue. It is suggested that the value of investment incentives in many African countries is limited to the extent that both the granting and the nature of the investment incentives granted are variable and discretionary (Pigato, 2001). Thus, while the investment incentives provided are often generous, the associated restrictive provisions and bureaucratic procedures may significantly erode their effectiveness. Tanzania established EPZ in 2002 and upgrade specialized EPZ zone by providing taxes exemption for 10 years, vat and other taxes exemption for purchase of inputs, exemption of local government taxes, allowance for 20% of goods to sell in domestic market, access to infrastructure. However the tax exemption cost of the country is high about \$451 million from July 2008-April 2009 and this consequence creates 6.4% of Tanzanian 2009/2010 National budget (Kristi Tuomi, 2012 and Domician, 2009).

According to Clarke, (2005) in most developing countries, the tax system is complex and its burden is borne only by the formal sector that is typical in only a small part of the economic system. Ineffective trade procedures mainly, customs are in many cases more costly than import and export taxes.

Generally, from the above point of view except few studies the majority of the empirical research studies concluded that export promotion policies are contributed great share for expanding of country's export.

2.3. Research Gap

Most of the studies discussed above shows that there were a positive relations ship between export incentive and export performance. However, most of the studies are conducted outside Ethiopia. As to the knowledge of the researcher, in Ethiopian context export trade incentive on export performance has been addressed by few studies such as the effectiveness of export trade incentive on export growth evidence from Ethiopia(Fanta and Teshale, 2014), Export Trade Incentives Schemes Nexus Export performance in Ethiopia (Aynalem Bekele Gemeda, 2020), Assessment of the export incentives and their implementation in Ethiopia (Mulu Gebreeyesus, 2017), effectiveness of tax incentive in promoting investment in Ethiopia (Mistre Dantew, 2014) and the effectiveness of incentive schemes in promoting export; the case of the Ethiopian trade duty incentive schemes(Senait Seyoum,2007).Most of the studies carried out discussed the implementation and the effectiveness of Major export trade incentive scheme(fiscal and financial incentive) on export growth as a whole.

Therefore, this study intends to fill the gap by going further to employ a more robust econometric analysis in the form of basic OLS assumption tests and trend analysis by Analyzing the impact of Each Fiscal(duty drawback, voucher scheme and bonded Manufacturing warehouse) and Financial (Export trade Guarantee) export trade incentive on export growth in Ethiopia.

2.4. Conceptual Framework

Conceptual frameworks of the study have independent variables which are export incentive and dependent variable export performance. The objective of the research is to investigate export incentive practice and export performance particular reference to export sector in Ethiopia based on both variable independent variable such as the duty draw-back scheme, the voucher scheme, the bonded export factory scheme, the bonded manufacturing warehouse scheme, the bonded input supplies warehouse scheme; and the industrial zone scheme. Export Performance In terms of value(Total Amount of export per annum)

Independent variables

- .Duty draw-back scheme
- The voucher scheme
- The bonded export factory scheme
- The bonded manufacturing warehouse scheme
- Foreign exchange retention scheme
- The industrial zone scheme
- Export trade Guarante

Dependent variable

Export Performance In terms of value(Total Amount of export per annum)

Source: adopted from literatures

Figure 1: Conceptual framework of export incentive on export performance

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter presents the methodology of research that is used in this study. It enlightens the approach that is taken to examine the data for the chosen variables and analysis of the data to discourse the research problem. The areas cover in this entire research includes: study area, research design, research approach, population and sampling, source of data collection method, data analysis methods, validity and reliability and finally ethical consideration.

3.1. Research Design

The overall objective of this study, which is the effect of export incentive on Export performance of Ethiopia, necessitates using descriptive and an explanatory research design Approach. Research design is actually a detailed sketch and analytical strategy of the complete research and that answers each research questions, validity and accurately (Kumar, 2011). According to Claire S, Wrightsman, (1976), a research design is framed to formulate methods of collecting and analyzing data in order to achieve research objectives. Besides, based on Kothari (2004), research design provides a conceptual structure for conducting the research and blueprint for collecting, measuring and analyzing data.

Therefore, the research designs that were adopted in this study are descriptive and explanatory methods. The descriptive design used to present the results in qualitative and quantitative tools. The explanatory design is examine the relationship between two variables namely independent and dependent.

3.2. Research Approach

Taking specific predictions, with narration of facts and characteristics concerning export incentive practices on export performance of exporters descriptive research design is implemented. The approach adopted is a case study that has used both qualitative and quantitative approaches. Quantitative approaches applied to involve the generation of data in quantitative forms which can be subjected to rigorous quantitative analysis that helps to explore, present, describe, and examine relationships. On other hand, qualitative approaches uses to analysis the subjective assessment of attitudes, opinions and behavior (Kothari (2004).

3.3. Population, Sample Size and Sampling Techniques

The target population consists of 132 exporter in Addis Ababa by using random sampling techniques. The selection of the sample is sufficient and represents the entire population. And another the population target for this study is the value of annual Export trade incentive granted for exporters by the government and amount of exported commodities for the rest of the world per annum. The samples that have been used are based on time interval by using quarterly time series data from 2011 to 2020. The data collected were related to export value (Dependent Variable), fiscal incentives (duty drawback, voucher Scheme and bonded warehouse), financial incentives (Export Credit guarantee), and real effective exchange rate (Independent variable). All the variables are in terms of Ethiopian Birr (ETB).

3.4. Data and Data Collection Method in the model from

This study is mainly based on secondary yearly export data on selected commodities and for other control variables mentioned in the model from This paper is primarily based on secondary data by summarizing relevant research documents, annual reports of National Bank of Ethiopia (NBE), Development bank of Ethiopia (DBE), Ethiopian Revenue and Customs Authority (ERCA), Ethiopia Investment commission (EIC), Ministry of Finance and Economic Development Office (MOFED) and internet websites.

3.5. Source of Data Collection Methods

The study used secondary data on export and incentives collected from Ethiopian Revenue and Customs Authority (ERCA), National Bank of Ethiopia (NBE), and Development Bank of Ethiopia (DBE). The export data of the country and the fiscal incentives data were collected from ERCA data base. Data related to financial incentives and GDP growth rate were collected from NBE, while the Real Effective Exchange Rate (REER) index is collected from Ethiopian Development Research Institute (EDRI). The study employed quarterly data for each variable from 2003 to 2011, hence 36 observations.

The researcher used both primary and secondary data. Primary data were collect from exporters of structured questionnaires for exporter office with a focus on general information and subjective specific situations of Export incentive on Export performance activities and other vital information related to the research objectives.

In support of the primary sources, **secondary** statistical data were collect from different exporters “ annual reports and for other control variables mentioned in the model from concerned different government offices such as Central Statistics Authority (CSA), Ministry of Trade, Ethiopian Customs and Revenue Authority (ECRA) and National Bank of Ethiopia (NBE).

Qualitative methods were useful for improving the depth of our understanding of the local circumstance within the firm that Export Sectors operations, while quantitative tool helped to determine the breadth to which observed behavioral practice, resources, or problems will distribute within operation unit. As a result, qualitative and quantitative types of data would be Management to identify the cross sectional problems of the barriers on export incentive on export performance of Ethiopian Export sectors specifically on in the study.

3.6. Data Analysis Method

After collecting and sorting the relevant data using data collection tools, qualitative responses sorted, coded, computed, and analyzed using SPSS version 20 statistical software. Microsoft Excel used alongside with SPSS software as appropriate. The appropriate statistical analysis uses according to respective objectives and descriptions.

Definition of Variables

In this study the variables considered as independent and dependent have the following contextual meaning.

Dependent variable

Export performance:-The total amount of commodities exported for the rest of the world per annum in terms of Quantity. The dependent variable used in this study is measured as the log of total amount of export volume per annum.

Independent Variable

Fiscal incentives:-are incentives granted per annum in the form of Duty drawback, voucher scheme and manufacturing under bonded warehouse.

Duty Drawback Scheme allows exporters to get a refund on customs duty paid on imported goods, where those goods are: to be treated, processed, or incorporated in other goods for export, or are exported unused since importation. Ethiopian Government provided and implements this scheme in 1993. Under this scheme firms importing raw materials for export use get 100% refund of customs duty and tax payments after exported the final product. The independent variable used in this study is measured as the log of total amount of tax forgone for duty drawback users per annum.

A voucher book is a document with a financial value printed by a ministry of finance used as a deposit for duties and taxes allocated on imported raw materials. Raw materials imported under this scheme shall be used for production of export commodity and the export commodity used for production shall be exported within a year starting from receipts of raw materials by the beneficiary. The independent variable used in this study is measured as the log of total amount of tax forgone for voucher scheme users per annum.

Manufacturing under bonded warehouse: _the scheme introduced and implemented in 1993.under this scheme person or firms engaged exclusively in the production of export commodities, obtained eligibility of certificate from ministry of trade and industry and a manufacturing plant meets standard of ERCA. Raw materials imported under this scheme shall be transported to the factory under the control of customs without being subject to payment of duty and correspondingly ERCA inspect raw materials brought into the bonded export factory and goods exported from the factory. Ethiopia has introduced Bonded Export Factory (BEF) and Bonded (Export) Manufacturing Warehouse (B (E) MW) and Bonded Input Supplies Warehouse (BISW) Schemes to avoid the cumbersome bureaucracy involved in customs clearance of imported inputs. The independent variable used in this study is measured as the log of total amount of tax forgone for manufacturing bonded warehouse per annum.

Financial incentives: - are incentives granted per annum to exporters in the form of Export credit guarantee. Export Credit Guarantee (ECG) is a form of insurance cover for political and commercial risk thus enabling exporters borrow corresponding amount of money from banks (Lakew, 2004). According to the revised directive No.SSB/33/2002 of NBE, This scheme are in place to ensure an exporter receives payment for goods shipped overseas in the event of customer defaults, reducing the risks of exporters business and allowing it to keep its price

competitiveness. The guarantee period is up to 365 days to cover pre-shipment export loan extended to exporters and post- shipment guarantee period may extended up to 180 days. The scheme covers all export products except coffee and the interest rate on pre-shipment and post shipment export credit is the prevailing lending rate in each financing bank. The independent variable used in this study is measured as the log of total amount of export credit Guarantee per annum.

Real Exchange Rate: - Real Exchange rates are included in the model to reflect the price competitiveness in the international markets and to ascertain its indirect influence on economic performance via export channel. It has been argued that exports in developing countries depend on the world demand for tradable goods. Thus, the fluctuations of the real exchange rates may be crucial for a small open economy like Ethiopia, which is influenced by the changes in the international market prices. In this regard, a positive correlation between real exchange rate and economic growth is anticipated (Henriques and Sadorsky 1996).

Table 3.1 Measurement of variables and expected Sign

Variable	Measurement(proxy)	Variable Name	Expected sign
EXPVAL	Log of Export value	Export value	
FISINC-DDB	Log of duty drawback	Duty drawback	+
FISINC-VC	Log of voucher scheme	Voucher	+
FISINC-BWH	Log of bonded Warehouse	Bonded warehouse	+
FININC-ECG	Log of Export credit Guarantee	Export Credit guarantee	+
REER	Annual exchange rate	Real effective exchange rate	+

Model Specification

First, the Augmented Dickey-Fuller (ADF) test was used to check weather each data series are stationary or have a unit root. The Augmented Dickey Fuller test (ADF) is based on the following regression 3.2. Model Specification The empirical models specified in the present study are adapted mainly from the model used by Geldres-Weiss and Monreal-Pérez (2018). In this paper, two alternative models were specified to assess export performance according to the following variables: age, size, and participation in export promotion programs. Alternative specifications were used in order to strengthen the results obtained. Model 1:

$$TES_{it} = \beta_0 + \beta_1 Part_EPP_{it} + \beta_2 Size_{it} + \beta_3 Age_{it} + \beta_4 Yeardummy_{it} + \epsilon_{it} \text{ Model 2:}$$

$$TES/TE_{it} = \beta_0 + \beta_1 Part_EPP_{it} + \beta_2 Logsize_{it} + \beta_3 Logage_{it} + \beta_4 Yeardummy_{it} + \epsilon_{it}$$

All variables pertain for firm *i* and year

Following previous empirical researches of Fanta and Teshale(2014), this model utilize five independent variables of Fiscal incentives (FISINC-DDB, FISINC-VC, and FISINC-MBW), financial incentives (FININC-ECG), real effective exchange rate (REER) and dependent variable of export growth (EXPVAL).

Independent variables of Real effective exchange rate(REER) will be treated as Control variables since our study give attention to the relationship between Export Growth (dependent variable) and Fiscal and financial incentives(independent variable).

Therefore, the following models are formulated by assuming the effect of export incentives on export growth.

$$EXPVAL = f(\text{FISINC-DDB, FISINC-VC, and FISINC-MBW, FININC-ECG, REER}) \dots \dots \dots (1)$$

Based on the above Models, we will develop following econometric models so as to examine and analyze the effect of export incentive on export growth empirically.

3.7. Validity and Reliability

In order to ensure validity and reliability, the questionnaire composed of carefully construct questions classified in to clusters to avoid ambiguity and in order to answer all the research questions. The questionnaire and interviews designed for the study is review and comment by credit experts working at the banks alongside with the suggestion of thesis advisor. These processes help to ensure the content validity of the instrument.

With regards to reliability of the instrument, Crombach's alpha coefficient used to measure internal consistency. The instrument insured to pass a minimum rating, which is 0.70. The reliability test run for the questionnaire of the study showed Cronbach's alpha of 0.865 showing an acceptable internal consistency.

Cronbach's Alpha	N of Items
.894	25

Source own survey result (2021), SPSS output

The above table 4.15 shows that the test reliability is highly related to test validity (.894). which is excellent range is between .09 and 1 could be as a result of factors such as a low number of questions or poor interrelatedness between items, while a high value of alpha (e.g > 0.90), may be as a result of some redundant items in the instrument (Tavakol & Dennick, 2011). With regards to reliability of the instrument, Cronbach's alpha coefficient used to measure internal consistency. The instrument insured to pass a minimum rating, which is 0.70. The reliability test run for the questionnaire of the study showed Cronbach's alpha of 0.894 showing an acceptable internal consistency.

3.8. Ethical Considerations

This study adhered to suitable research techniques and all sources of material is acknowledge as far as possible. Every person who involve in the study is entitled to the right of privacy and dignity of treatment, and no personal harm is causes to subjects in the research. The information obtain is held in strict confidentiality by the researcher. All assistance, collaboration of others and sources from which information drawn is acknowledge.

An official letter from Addis Ababa University was offered by the district administration and the researcher has secured consent from the concerned sector office. The respondents/head of leather industry/were participated in this research voluntarily. They were given adequate information regarding the purpose of the study and were expressed their consent verbally. Arrangements were made to keep the dignity and freedom of each participant. Participants were assured that the information they provide were confidential and did not disclose to anyone else, including their competitors, government bodies, schools, and vicinities.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

The study used secondary data on export and incentives collected from Ethiopian Revenue and Customs Authority (ERCA), National Bank of Ethiopia (NBE), Development Bank of Ethiopia (DBE) and world economic outlook report (WEO). The export data of the country is collected from ERCA data base. Data related to Exchange Rate (ExR) index and GDP growth rate were collected from NBE. The study employed time series data for each variable from 2013 to 2018, hence 25 observations. To indicate whether there is change or not in the export value growth before and after the policy introduction in 2001 and to obtain a meaningful econometric result, the author decided to increase the sample data used in the analysis from what is in the proposal (2005-2013) to 1990-2014. This chapter includes the data presentation, analysis and interpretation of the findings. The analysis starts with a description of the respondent's demographic profiles. The total sample of the study was 132, out of the 132 questionnaires distributed, 119 were returned and 7 were rejected because of poor data quality 112 questionnaires were valid with sufficient amount of response rate of 84.8%.

4.1. Descriptive Analysis

4.1.1. Background of Respondents

Table 4.1: Ownership form of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
	Local Owned	132	84.8	84.8	84.8
	Foreign owned	-	-	-	-
Valid	Total	112	84.8	100	
Missing	System	20	15.2		100
	Total	132	100		

Table 4.2: Nature of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
	State owned firm	2	1.5	84.8	84.8
	Privet firm	110	83.3	100	100
Valid	Total	112	84.8	100	
Missing	System	20	15.2		
	Total	132	100		

Source: survey data, 2021

The respondents were asked to indicate their ownership type and the results are shown above. Table 4.2 indicates the results which were obtained where 110(83.3%) of the respondents were Privet firm and 2(1.5%) State owned firm . From this, the majority of the sector owned by privet.

Table 4.3: Ownership types of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
	Part of big company	2	1.5	1.7	84.8
	Independent firm	110	83.3	84.8	100
Valid	Total	112	84.8	100	
Missing	System	20	15.2		
	Total	132	100		

Source: Survey data, 2022

Table 4.4: Year of operation of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 year and less	2	1.51	1.7	1.51
	5-Jan	21	15.91	18.75	17.42
	10-May	22	16.67	19.64	34.09
	Above 10 years	67	50.75	59.82	
	Total	112	84.84	100	
	Missing	20	15.16		100
	Total	132	100		

Source: Survey data, 2022

The respondents were asked to indicate their year of operation and the results are shown above. Table 4.4 indicates the results which were obtained where 2(2%) of the respondents were 1 year and less operation of the sector, 18(18.2%) between 1 and 3, 19(19.2%) between 3 and 5, and 60(60.6%) between 5 and 7, years of operation. From this, the majority of the sector between 5 and 7, years of operation.

The respondents were asked to indicate their ownership type and the results are shown above. Table 4.2 indicates the results which were obtained where 2(1.5%) of the respondents were Part of big company and 110(83.3%) Independent firm. From this, the majority of the sector Independent firm.

From table 4.12 indicated that the status of each indicators of Export Performance In terms of value Volume of exported item increasing during the last seven years. the mean score of 3.66 and the SD of 1.117. and . Value of exported items increasing during the last seven year with the mean of 3.85 and the SD of .993.

Table 4.5 Export Sub Group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	flower exporter	3	2.27	2.68	2.68
	Pulses, oil seeds and spices	24	18.18	21.43	24.11
	vegetable and fruit exporters	21	15.91	18.75	42.86
	Coffee Exporter	64	48.48	57.14	100
	Total	112	84.84	100	
	Missing	20	15.16		
	Total	132	100		

Source: Survey data, 2021

The respondents were asked to indicate their export sub sector and the results are shown above. Table 4.5 indicates the results which were obtained where 3(2.68%) of the respondents were flower exporter operation of the sector, 24(21.43%) export Pulses, oil seeds and spices, 21(18.75%) export vegetable and fruit exporters, and 60(57.14%) Coffee Exporter. From this, the majority of the sector above 10, years of operation

Duty drawback, Voucher scheme, the bonded manufacturing warehouse scheme, foreign exchange retention scheme, the industrial zone scheme, Export trade Guarantee, Export Performance In terms of value are a major factor raised by literatures as a companies' competitive advantage.

4.1.2. Export Incentive and Export Performance

In this sub topic descriptive statistics, interpret in the form of means and standard deviations were presented to illustrated the level of agreement of the respondents. The responses for variables of the respondents for the variable were measured on a five points Likert Scale: 1=strongly disagree, 2=disagree, 3= neutral, 4=agree and 5=strongly agree

Table 4.6 Duty drawback

Duty drawback	N	Mean	Std. Deviation
Duty free imported items are served the intended purpose	112	4.08	1.124
Duty free imported items are sold in the domestic market	112	2.55	1.267
There is mechanism to ensure whether duty free imported items are served the intended purpose rather they can be sold in the domestic market	112	3.36	1.345
the process of import goods without tax incentives undervaluation is the main problem	112	3.25	1.144
Long and sophisticated procedural requirements of duty-free imported items affect export performance	112	3.11	1.17
Ethiopian export incentives package to fulfill international standards practices	112	3.47	1.352
Do you think that Presences of incentives package affect export performance in value	112	2.09	1.2
The current state of tax incentives violates the equity principal taxation	112	3.43	1.211

Source: survey data, 2021

Table 4.7 The voucher scheme

voucher scheme	N	Mean	Std. Deviation
Have a good relationship Voucher scheme to Increase in sales due to export performance	112	2.86	1.036
Long and sophisticated procedural requirements of Voucher Scheme imported items affect export performance	112	3.39	1.113
The current state of voucher scheme incentives violate the equity principal taxation	112	3.2	1.211
There is strong government support for export, Such as duty free privileges for importation of machinery and equipment, tax holidays, reduced Import tax on raw materials and accessories	112	3.34	1.264

From table 4.7. indicated that the status of each indicators effect of Export incentive in the export sector. Have a good relationship Voucher scheme to Increase in sales due to export performance the mean score of 2.86 and the SD of 1.036. Long and sophisticated procedural requirements of Voucher Scheme imported items affect export performance the mean score of 3.39. and the SD of 1.113. The current state of voucher scheme incentives violate the equity principal taxation the mean score of 3.20. and the SD of 1.211 and finally There is strong government support for export, Such as duty free privileges for importation of machinery and equipment, tax holidays, reduced Import tax on raw materials and accessories the mean score of 3.34. and the SD of 1.264.

Table 4.8 The bonded manufacturing warehouse scheme

The bonded manufacturing warehouse scheme	N	Mean	Std. Deviation
Beneficiaries of this scheme are those exporters who are not eligible to use the voucher scheme	112	3.73	1.388
The bonded manufacturing where house scheme shall seal containers and trailers and note seal number on the gate pass before delivery is effected	112	3.49	1.192

Source: survey data, 2021

From table 4.8 indicated that the status of each indicators of The bonded manufacturing warehouse scheme, Beneficiaries of this scheme are those exporters who are not eligible to use

the voucher scheme mean score of 3.73 and the SD of 1.388 The bonded manufacturing where house scheme shall seal containers and trailers and note seal number on the gate pass before delivery is effected had the mean score of 3.490 with the SD of 1.192.

Table 4.9 Foreign exchange retention scheme

Item	N	Mean	Std. Deviation
Foreign exchange retention scheme			
Do you think Foreign exchange retention scheme to increase the export performance in value	112	3.4	1.13
Foreign exchange retention scheme significantly affect export performance	112	3.84	1.157
Presences of high inflation affect export performance of the corporation	112	4.18	1.286
High values of foreign exchange rate encourage export performance of the sector.	112	3.71	1.296

Source: survey data,2022

From table 4.9 indicated that the status of each indicator of Foreign exchange retention scheme as a factor. Do you think Foreign exchange retention scheme to increase the export performance in value mean score of 3.40 and the SD of 1.130. Foreign exchange retention scheme significantly affect export performance with the mean of 3.84 and the SD of 1.157. Presences of high inflation affect export performance of the corporation the mean of 4.18 and the SD of 1.286. and finally High values of foreign exchange rate encourage export performance of the sector. had the mean score of 3.71 with the SD of 1.296.

Table 4.10 The Industrial zone scheme

The industrial zone scheme	N	Mean	Std. Deviation
Government policy and commitment to support export sector encourages export performance	112	3.59	1.623
There is sufficient transport to/and from port and also the cost of transport fair	112	3.89	1.177
There is an efficient port handling and customs processes for raw material import and export of products	112	2.45	1.071

Source: survey data

From table 4.10 indicated that the status of each indicator of Government policy and commitment to support export sector encourages export performance mean score of 3.59 and the SD of 1.623. There is sufficient transport to/and from port and also the cost of transport fair the mean of 3.89 and the SD of 1.177. and finally Sector have competitive advantages over other competitors had the mean score of 2.45with the SD of 1.07.

Table 4.11 Export trade Guarantee

Export trade Guarantee	N	Mean	Std. Deviation
Financial incentives positively related with export performance	112	3.89	1.177
Trade credit guarantee, financed for export business, perform as expected by exporter	1122	2.45	1.071

Source: survey data, 2021

From table 4.11 indicated that the status of each indicators of Export trade Guarantee. Financial incentives positively related with export performance. the mean score of 3.89 and the SD of 1.177. Trade credit guarantee, financed for export business, perform as expected by exporter the mean of 2.45 and the SD of 1.07

Annual Export Growth in Ethiopia

As per Fig. 4.3 the trend of Annual export growth of the country shows an upward trend from 2011-2020. Except 2015 and 2016

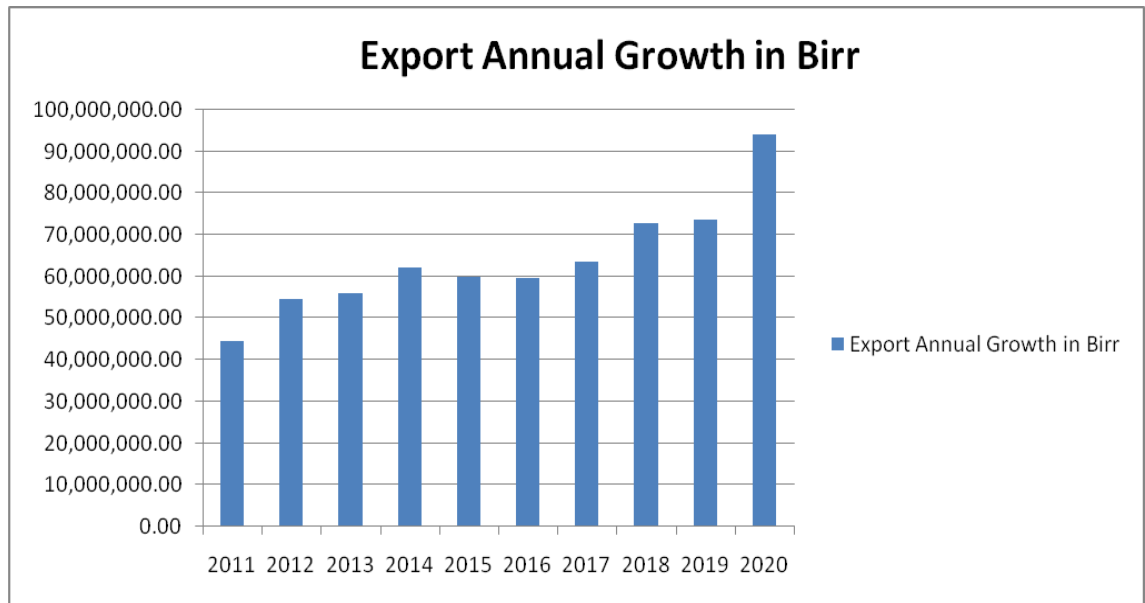


Figure 2 Trends of Export to Annual growthSource: National Bank of Ethiopia

As the above graph shows that in the study period the highest export annual growth is registered in 2020 and the lowest export annual growth is registered in 2011 which was 44,525,565.04.

Ethiopian Export Destination

Asia, Europe and Africa were the major destinations for Ethiopian merchandise export. Asia accounted for 36.4 percent of Ethiopia’s total exports. Saudi Arabia was the largest market for Ethiopia’s export with 19.0 percent share in total export earnings from Asia, followed by United Arab Emirates (11.5 percent), Japan (10.4 percent), Israel (9.4 percent), China (7.7 percent), South Korea (5.9 percent), India (5.2 percent), Singapore (3.6 percent), Yemen (3.5 percent), Indonesia (2.7 percent) and Taiwan (2.1 percent). These countries altogether accounted for 81.0 percent of Ethiopia’s total export revenue from Asia. followed by Switzerland (19.8 percent), Germany (16.0 percent), Belgium (8.0 percent), Italy (4.4 percent), Turkey (3.4 percent), United Kingdom (3.3 percent) and France (2.8 percent). On the while, these countries had 88.6 percent share in Ethiopia’s total exports earnings from Europe.

About 18.9 percent of Ethiopia’s export proceeds originated from Africa, mainly Somalia (41.0 percent), Djibouti (21.0 percent), Sudan (12.1 percent), Kenya (2.6 percent), Nigeria (2.0 percent) and Egypt (0.9 percent) which altogether accounted for 80.6 percent of the total exports

earnings from Africa.

America accounted for 10.6 percent of Ethiopia's total export revenue, of which 67.4 percent was from exports to the United States, 4.6 percent to Canada and 0.7 percent to Mexico. These three countries had 72.7 percent share in Ethiopia's total exports to America.

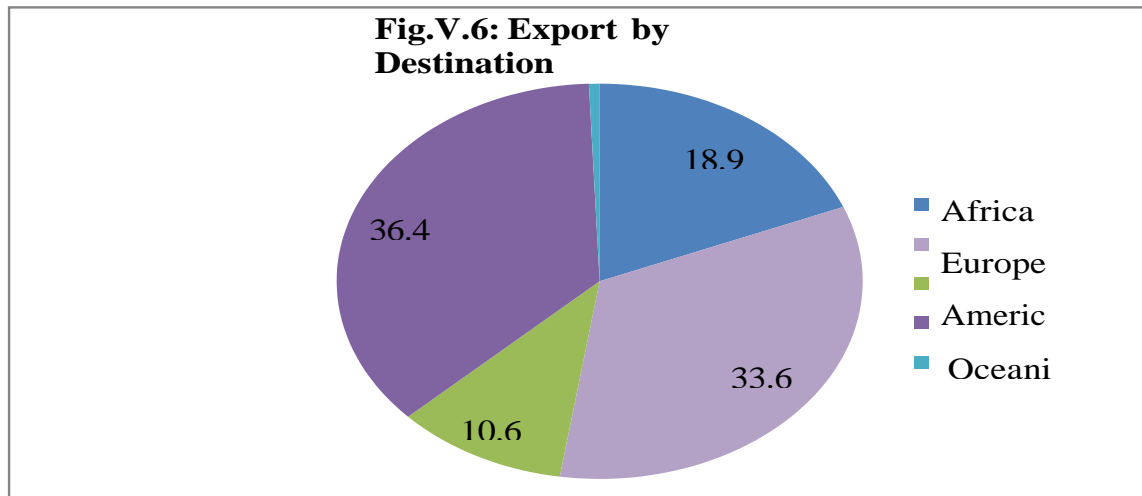


Figure 3 Trend of Export Destination by continent Source Author's calculation based on data from NBE

4.2. Discussion

The main objective of this study was to examine the Export incentive affecting export performance of export sector in Ethiopia to achieve this objective both primary and secondary data have been obtained the collected data is analyzed and discussed. Based on the findings of the research, the discussion, conclusions and recommendations made are presented as follows. This study analyses the export incentive affecting export performance on the export sector.

The major determinants affect export incentive practices and export performance of export sectors are both variable Independent(Export Incentive practice, Separate export department, export marketing strategy, management commitment & capability and Economic policy government policy and political) and dependent (factor affect export performance) variable.

The effectiveness of exports incentive amongst us studies that are targeted at export sector. The outcome results of the aforementioned studies are mostly not on the favor of export incentive.

Which have a common characteristic that all lack close government follow up. While few shown success stories that are the case of Brazil, Korea and China each have their unique and common characteristic that contributed for the success of export subsidy.

Firms marketing strategy factors are partially affect export incentive practice. As far as government policy factors are concerned; there are considerable government supports to export activities of the sector. There are many changes brought in the country in terms of development, which in turn to export. However, there are still several problems, which affect the export markets of the exporter of foreign markets. Lack of skilled human resource and sophisticated custom procedures are still on the ground.

The major challenges or problems that affects on export incentive practices in the sectors are the government policy for export incentives is well but the incentives are not clear to most exporter so its hard to utilize them, and sophisticated custom procedures.

The major prospects on exporting in the sector such as Foreign Exchange, Agriculture, International trade . government's strong support towards export. Exporting different items with competitive Quality is very important to get foreign currency and its helps. To improve production of export items, To motivates production of export items, It motivate investors and formers to produce export items.

Explanatory Power of the Model

The model is statistically fit with p-value of the F-statistic is 0.0000 and it is good enough to explain the model. The estimated results show R^2 and adjusted R^2 of .963 and .961 respectively.

Statistical test results for OLS Models

In this section by using SPSS software, we can find the result of t test by comparing probability of t value with level of significance. From the collected data, using 5 percent α or 95% confidence level. If the probability of t value < 5 percent, then we may conclude that the independent variable is significant toward dependent variable. To be more precise explanation of t-test for each independent variable will be presented below:

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with summary of major findings of the study and recommendations of possible solutions for the problems identified. Accordingly section one presents conclusion part, section two presents recommendations and the last section presents recommendation for future research.

5.1. Conclusion

This study has attempted to examine the effect of export incentives on export growth in Ethiopia over the period 2011 to 2020. The findings suggest that the country's export earning showed a sustained increase since introduction of the incentive schemes. Despite the fact that the country's export earning is predominantly from few primary commodities such as coffee, cereals, oilseeds, pulses and hides & skins, the country's export diversification strategy seems to have borne fruit during the study period. This is evidenced by a decline in export concentration. The study revealed that there was no significant improvement in value added exports over the study period. Export of manufactured goods constituted, on average, 14.7 percent of the total export, implying that the country's exports are still dominated by non-manufactured export items. The study also shows that the market access of the country's product has increased. However, the average percentage of exports to GDP in throughout the study period is 10.1%. We found that there is positive relationship between export performance and export incentives, and our time series econometric analysis revealed that export incentives have effect on export growth(value).Despite the fact that the country's export earning is predominantly from few primary commodities such as coffee, cereals, oilseeds, pulses and hides & skins, the country's export diversification strategy seems to have borne fruit during the study period.

During the study period descriptive and time series techniques were applied to appraise the trends of Fiscal incentive and financial incentive, share of fiscal incentives users for total export, Export performance and assess effectiveness of export trade incentive on Export growth.

According to the time series regression model results during the study period the author find that Fiscal incentives in the form of voucher scheme , financial incentives in the form of export credit guarantee and Reerhave robust relationship with Export value and their P-value is statistical significant with less than 5 % . On the other hand according to the regression results fiscal incentive schemes of Duty drawback and manufacturing bonded warehouse have statistically not significant at 5% level.

The study also shows that Ethiopia export destination areas increased during the study period. The bilateral trade agreement, AGOA, EBA and COMESA free trade creates a channels for exporters to get market access in the international market and also they will get the opportunity to introduce their products in the international market although from Fig.4.5 evidenced that the total export earning to GDP is only 8.8% in the year 2018, which is insignificant and we conclude that the role of export on economic growth in Ethiopia is very low.

Apart from the above findings using our time series analysis the statistics result showed that there is a positive and healthy relationship between fiscal incentives (voucher scheme) , financial incentives(Export guarantee),REER and export growth during the study period. On the contrary Duty drawback and manufacturing bonded warehouse has no relationship with Growth of export value.

In General, from our statistics results we concluded that fiscal incentives in the form of Voucher scheme, financial incentives (export credit Guarantee)and Reer helped the country to expand the export during the study period however our trend analysis evidenced that the country's export earning still highly dependency of few primary products.

5.2. Recommendation

The recommendation that emerges from this study is that the government should attempt to diversify and promote exports in order to fully exploit the benefits of the sector and promote economic growth. In this regard, the policies towards export promotion are crucial. The export incentives by the government aim mainly for price competitiveness. However, the global competitive market on the other hand demands more than that not only support only towards price competitiveness but also support on quality, product differentiation, delivery time, meeting different standards, and related others system that is conducive for efficient export p The

recommendation that emerges from this study is that the government should attempt to diversify and promote exports in order to fully exploit the benefits of the sector and promote economic growth. In this regard, the policies towards export promotion are crucial. The export incentives by the government aim mainly for price competitiveness. However, the global competitive market on the other hand demands more than that not only support only towards price competitiveness but also support on quality, product differentiation, delivery time, meeting different standards, and related others system that is conducive for efficient export promotion. To this regard, the following measures should be taken.

- To determinant of export incentive practice and export performance are identified and the implications are drawn from findings of the study that concerned bodies.
- The incentive package should revise periodically the rules and policies of export sector.
- The export sector should identified the problem are direct or indirectly link with between incentive and performance.
- As recommendation the sector top management should beto provide appropriate comment for government policy maker bodies.
- To solve the external or sector level hindrance, it is highly recommended that the sectorhave to work a great effort.
- Management and technical experts should be analyzing modern global market condition to follow effective strategy.
- Should be to have platform that clearly stated.
- The implementation of the export incentives should be revised and take measure actions against the time consuming and backward method of export incentive controlling mechanisms which push aside exporters from using the incentives offered by the government. Specifically, duty draw back scheme should be very effective which allows exporters get a refund of the tax and duty they pay on the inputs they use on export production but unless they get the tax drawback on the time they need, it becomes obstacle instead of incentive. The same goes with the other incentives.

- To improve the export sector, well organized and structured export promotion agency plays a key role, so this study calls for the establishment of export promotion agency.
- Domestic exporters capacity should be built by increasing the competitiveness of exporters in the world market the bias against exports should be greatly reduced. This can be achieved for instance by providing exporters an automatic access to foreign exchange for the purchase of their intermediate goods and also providing them a preferential interest rate on bank loans which is much lower from the interest rate paid on non-export loans.

Export credit guarantee scheme has a huge potential to encourage exporters. Since the country's export performance is highly dependency of agricultural products, government should encourage for utilization of export ECG to generate foreign currency in the one hand and remove the treat of agricultural exporters who lost their hope because of seasonality and international market.

Policy Implications

The policy recommendation that emerges from this study is that the government should attempt to diversify and promote exports in order to fully exploit the benefits of the sector and promote economic growth. In this regard, the policies towards export promotion are crucial. The export incentives by the government aim mainly for price competitiveness. However, the global competitive market on the other hand demands more than that not only support only towards price competitiveness but also support on quality, product differentiation, delivery time, meeting different standards, and related others system that is conducive for efficient export promotion. To this regard, the following measures should be taken.

- The implementation of the export incentives should be revised and take measure actions against the time consuming and backward method of export incentive controlling mechanisms which push aside exporters from using the incentives offered by the government. Specifically, duty draw back scheme should be very effective which allows exporters get a refund of the tax and duty they pay on the inputs they use on export production but unless they get the tax drawback on the time they need, it becomes

obstacle instead of incentive. The same goes with the other incentives.

- To improve the export sector, well organized and structured export promotion agency plays a key role, so this study calls for the establishment of export promotion agency.
- Domestic exporters capacity should be built by increasing the competitiveness of exporters in the world market the bias against exports should be greatly reduced. This can be achieved for instance by providing exporters an automatic access to foreign exchange for the purchase of their intermediate goods and also providing them a preferential interest rate on bank loans which is much lower from the interest rate paid on non-export loans.
- The incentives should be on merit based, currently the incentives are given to all exporters which fulfill the preconditions stated on the proclamation, however the incentives might be more effective if they can be given on selective bases of exporter's performance, sector involvement, foreign exchange earnings, forgone tax to foreign exchange earnings ratio etc.
- Better to have additional incentives which are not based on price competitiveness but also on other conditions which contribute to export like quality, quantity, value addition, skilled manpower development etc.
- Simple and short method of controlling mechanism should be adapted and control should be based on risk.
- This study also calls for further study based on every company's data. In summation, the above measures to be undertaken in order to reduce and eliminate the supply constraints deterring the performance of export sector are somewhat general. A closer look and detailed investigation into each sectors is very important if export promotion and diversification schemes are to be successful.

Limitation and Recommendation for future research

This study could not cover the entire incentive scheme provided by the Ethiopian government to exporters. Therefore, the researcher highly recommended future researches for the impact of all incentive schemes on export growth in terms of scope and degree of impact.

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APPENDIX A
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
PROGRAM OF INTERNATIONAL BUSINESS

Questionnaire to be filled by DIFFERENT EXPORTER:

Dear respondents,

This is study, entitled as “**Export Incentive Practices and Export Performance:** is done Partial Fulfillment of the Requirements for the Degree of Master of Science in International Business(MSc). The main objective of the study is to examine the relationship between export incentive practices and export performance. To this end, a questionnaire survey approach is chosen to collect pertinent data from exporting sector firm in Ethiopia. Besides since organization is the unit of analysis, the questionnaires will be completed by Export Manager and top level managers. Data related to Export Incentive Practices will be responded by top level managers. Moreover, Export Performance practices will be responded by Export Manager. The questionnaires has three main parts, part one the definition of the main research variable. Part two gathers the background information about the firm. Part three includes questions related to Export Incentive Practices and Export Performances. Moreover, the confidentiality of you responses will be maintained, meaning that it will neither be disclose to any third party nor does your identity (such as name, address and the like) be maintained in the study. There is no right or wrong answer; what matters the most is your honest judgment on the context to which those practices are implemented in your organization. Finally, I kindly request you to fill the questionnaire carefully and back to me and I would like to thank you well in advance for your valuable contribution to the research project.

Instructions:-

The researcher uses this questionnaire for the genuine information is highly decisive to the success of this study. Therefore,

- ✓ Not need of writing your name.
- ✓ Put the (✓) mark in the box for your answer.
- ✓ With great excuse, possibly return back to timely.

For any problem and suggestion contact the researcher through the following addresses:

Email: samsonbeletikachew@gmail.com

Phone: +251911255713

Thank you in advance for your cooperation!!

g) Cotton Exporters h) Exporters of Meat i) Live Animal Exporters

j) Textile & Garment Exporters

k) Other Please Specify _____

Exporter Opinion Investigation

This part of the questionnaire consist items taken from the export incentive practices and export performance. The main purpose of the instrument is to assess three types of incentives in your organization such as direct incentives, indirect incentive & Other, non-fiscal, incentives. To what extent do you agree with the following statements about export incentives in your organization, ranging from strongly disagree to strongly agree? And put “√” mark for each rating. 1: *Strongly Disagree*, 2: *Disagree*, 3: *Neutral*, 4: *Agree* and 5: *Strongly Agree*

No	Item	yes	No
	Duty drawback		
1	Duty free imported items are served the intended purpose		
2	Duty free imported items are sold in the domestic market		
3	There is mechanism to ensure whether duty free imported items are served the intended purpose rather they can be sold in the domestic market		
4	the process of import goods without tax incentives undervaluation is the main problem		
5	Long and sophisticated procedural requirements of duty-free imported items affect export performance		
6	Ethiopian export incentives package to fulfill international standards practices		
7	Do you think that Presences of incentives package affect export performance in value		
8	The current state of tax incentives violates the equity principal taxation		
	voucher scheme		
9	Have a good relationship Voucher scheme to Increase in sales due to export performance		
10	Long and sophisticated procedural requirements of Voucher Scheme imported items affect export performance		
11	The current state of voucher scheme incentives violate the equity principal taxation		
12	There is strong government support for export, Such as duty free privileges for importation of machinery and equipment, tax holidays, reduced Import tax on raw materials and accessories		
	The bonded manufacturing warehouse scheme		
14	Beneficiaries of this scheme are those exporters who are not eligible to use the voucher scheme		

15	The bonded manufacturing where house scheme shall seal containers and trailers and note seal number on the gate pass before delivery is effected		
	Foreign exchange retention scheme		
16	Do you think Foreign exchange retention scheme to increase the export performance in value		
17	Foreign exchange retention scheme significantly affect export performance		
18	Presences of high inflation affect export performance of the corporation		
19	High values of foreign exchange rate encourage export performance of the sector.		
	The industrial zone scheme		
20	Government policy and commitment to support export sector encourages export performance		
21	There is sufficient transport to/and from port and also the cost of transport fair		
22	There is an efficient port handling and customs processes for raw material import and export of products		
	Export trade Guarantee		
23	Financial incentives positively related with export performance		
24	Trade credit guarantee, financed for export business, perform as expected by exporter		

Personal opinion questions

1. In your opinion, what are the major challenges or problems that affects on export incentive practices in the sectors? Please explain briefly :

.....

what is your recommendation to overcome these problems

2. What are the major prospects on exporting in the sector? Discuss briefly

.....

3. Dose the export sectors utilize its government incentives package

4. What do you recommend to enhance /improve/ existing level of export performance in terms of volume and foreign currency earnings? You can use the back space. To Export High volume

of Coffee: first the coffee supply chain of the coffee and sourcing of the coffee market like ECX vertical integration should work in a procedure.

Thank you for your sector!!!

Quantity of Major Exports

Commodity	2010/11	2011/12	2012/13	2013/14	2014/15	2014/15	2016/17	2017/18	2018/19	2019/20
	-2003	-2004	-2005	-2006	-2007	-2007	-2009	-2010	-2011	-2012
Coffee	172,217.23	169,408.06	199,127.77	189,669.31	183,870.70	198,658.11	225,747.01	238,572.83	230,931.42	271,111.52
Oilseeds	254,186.46	367,436.15	283,853.59	313,526.60	319,461.91	436,573.50	333,514.13	348,548.01	260,001.58	236,504.53
Leather and										
Leather products	5,167.39	4,435.66	4,614.91	5,573.06	6,174.96	5,983.46	5,890.12	6,400.79	5,590.40	3,551.27
Pulses	224,482.34	226,157.63	357,518.78	353,022.19	340,736.88	375,425.13	392,743.28	438,061.53	462,821.56	354,010.48
Meat Products	16,877.3	17,665.9	15,466.31	14,971.98	19,034.52	18,965.08	19,564.98	19,954.8	17,719.23	12,819.96
	7	6						5		
Fruits & Vegetables	91,587.26	123,538.30	135,184.35	145,436.23	150,148.72	167,076.37	178,569.19	188,976.92	175,619.64	191,183.11
Sugar	-	11.18	0.02	-	-	-	51,126.64	35,958.0	43,706.24	17,515.03
								9		
Gold	11.18	12.19	12.31	11.64	9.04	8.58	5.97	2.82	0.82	3.32
Live Animals	112,802.55	144,885.27	100,888.37	105,827.48	77,860.31	77,779.01	36,066.48	31,936.9	24,346.65	29,395.64
								9		
Chat	40,971.7	41,052.8	47,163.67	51,689.76	49,204.18	47,000.13	48,818.10	47,023.9	53,565.91	57,136.13
	4	7						4		
Bee's Wax	362.51	367.09	411.93	334.7	520.38	267.65	302.34	358.7	283.18	258.01
Tantalem	331.17	294.58	75.72	87.91	147.79	185.9	229.3	2,860.36	386.2	76.08
Cotton	152.17	126.93	5,673.61	751.98	8.29	0.34	-	3,529.38	252.91	80
Text. & Text. Prdts	8,537.56	10,799.7	15,935.97	18,638.34	14,858.30	12,281.54	16,192.82	16,761.8	19,888.80	22,798.39
		6						1		
Cereals and Flour	122,344.23	12,265.3	6,819.15	19,968.19	39,171.91	11,403.59	71,737.19	11,805.2	3,579.95	4,670.14
		2						8		
Natural Gum	4,416.78	3,503.66	3,268.07	3,402.88	3,472.77	2,351.01	3,383.90	2,482.77	1,111.41	1,384.59
Animal Fodder	286.61	48.93	40.01	-	-	-	-	-	-	-
Natural Honey	520.3	876.66	839.54	742.35	681.18	592.53	444.1	316.3	134.43	152.14
Flower	41,562.6	46,797.6	42,438.23	44,720.52	46,330.67	50,629.10	49,356.08	50,100.8	57,849.31	94,389.84
	1	6						8		
Beverage	2,739.15	3,829.13	3,971.20	2,201.69	2,990.00	4,213.56	3,943.14	3,566.97	4,404.93	4,430.26
Spices	12,803.2	17,207.2	24,239.60	21,261.15	19,146.48	13,374.79	12,427.56	12,576.8	11,589.88	12,499.67
	7	9						5		

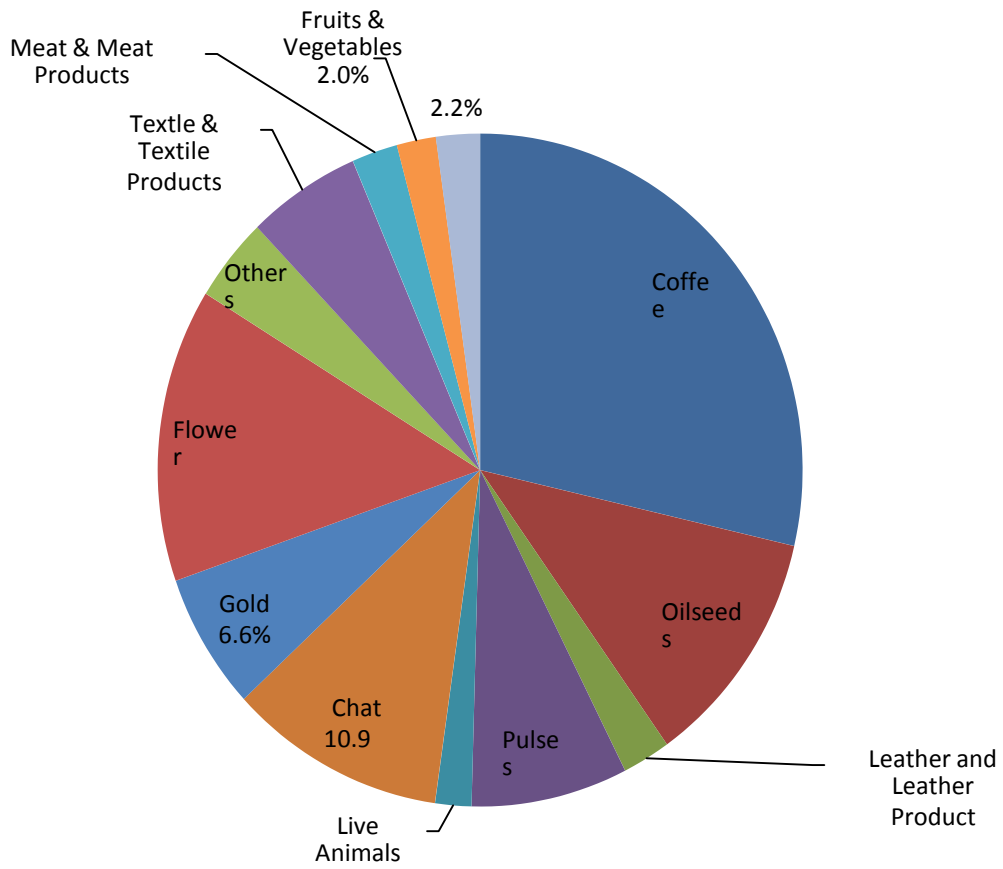
Ministry of Revenue

Quantity of Major Exports

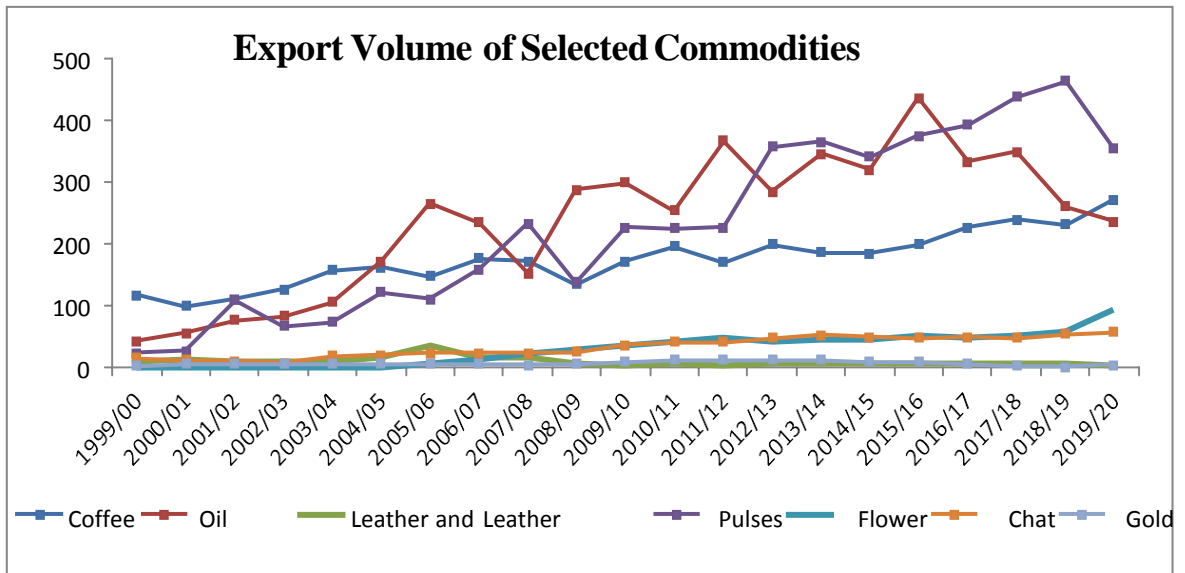
Commodity	2010/11	2011/12	2012/13	2013/14	2014/15	2014/15	2016/17	2017/18	2018/19	2019/20
	-2003	-2004	-2005	-2006	-2007	-2007	-2009	-2010	-2011	-2012
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Leather and Leather products	5,167.39	4,435.66	4,614.91	5,573.06	6,174.96	5,983.46	5,890.12	6,400.79	5,590.40	3,551.27
Pulses	224,482.34	226,157.63	357,518.78	353,022.19	340,736.88	375,425.13	392,743.28	438,061.53	462,821.56	354,010.48
Meat Products	16,877.37	17,665.96	15,466.31	14,971.98	19,034.52	18,965.08	19,564.98	19,954.85	17,719.23	12,819.96
Fruits & Vegetables	91,587.26	123,538.30	135,184.35	145,436.23	150,148.72	167,076.37	178,569.19	188,976.92	175,619.64	191,183.11
Sugar	-	11.18	0.02	-	-	-	51,126.64	35,958.09	43,706.24	17,515.03
Gold	11.18	12.19	12.31	11.64	9.04	8.58	5.97	2.82	0.82	3.32
Live Animals	112,802.55	144,885.27	100,888.37	105,827.48	77,860.31	77,779.01	36,066.48	31,936.99	24,346.65	29,395.64
Chat	40,971.74	41,052.87	47,163.67	51,689.76	49,204.18	47,000.13	48,818.10	47,023.94	53,565.91	57,136.13
Bee's Wax	362.51	367.09	411.93	334.7	520.38	267.65	302.34	358.7	283.18	258.01
Tantalem	331.17	294.58	75.72	87.91	147.79	185.9	229.3	2,860.36	386.2	76.08
Cotton	152.17	126.93	5,673.61	751.98	8.29	0.34	-	3,529.38	252.91	80
Text. & Text. Prdts	8,537.56	10,799.76	15,935.97	18,638.34	14,858.30	12,281.54	16,192.82	16,761.81	19,888.80	22,798.39
Cereals and Flour	122,344.23	12,265.32	6,819.15	19,968.19	39,171.91	11,403.59	71,737.19	11,805.28	3,579.95	4,670.14
Natural Gum	4,416.78	3,503.66	3,268.07	3,402.88	3,472.77	2,351.01	3,383.90	2,482.77	1,111.41	1,384.59
Animal Fodder	286.61	48.93	40.01	-	-	-	-	-	-	-
Natural Honey	520.3	876.66	839.54	742.35	681.18	592.53	444.1	316.3	134.43	152.14
Flower	41,562.61	46,797.66	42,438.23	44,720.52	46,330.67	50,629.10	49,356.08	50,100.88	57,849.31	94,389.84
Beverage	2,739.15	3,829.13	3,971.20	2,201.69	2,990.00	4,213.56	3,943.14	3,566.97	4,404.93	4,430.26
Spices	12,803.27	17,207.29	24,239.60	21,261.15	19,146.48	13,374.79	12,427.56	12,576.85	11,589.88	12,499.67

Ministry of Revenue

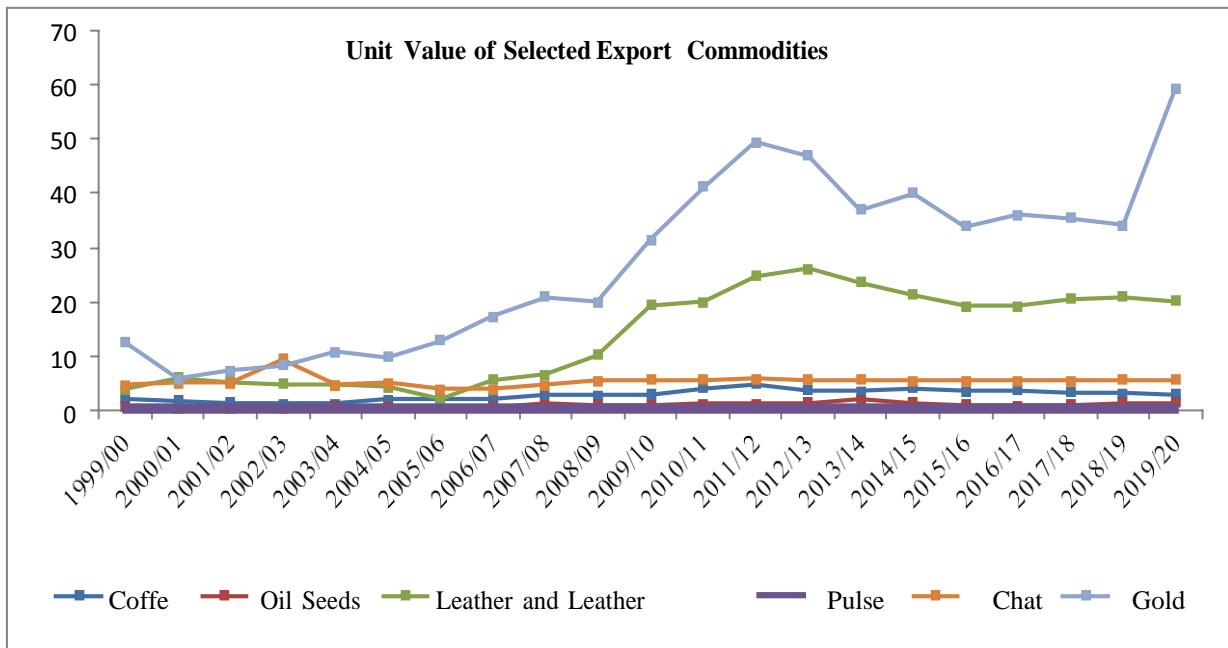
Fig. V.3: Export Share of Selected



Source: NBE Staff Computation



Source: NBE Staff Computation



Source: NBE Staff Computation