

ADDIS ADBAB UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

(GRADUATE PROGRAM)

Challenges of Import Customs Clearance in Ethiopian Revenue and Customs Authority

Thesis Submitted to the Department of Accounting and Finance – College of Business and Economics of Addis Ababa University in Partial Fulfillment for the Requirements of Masters of Science Degree in Accounting and Finance

By

Minwagaw Erkie

Advisor

Degefa Duressa (Phd.)

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Addis Ababa, Ethiopia

Statement of Declaration

I, Minwagaw Erkie, have carried out a research work on the Challenges of Import Customs Clearance in Ethiopian Revenue and Customs Authority (ERCA) independently in partial fulfillment of the requirement of the Masters of Science (MSc.) Degree in Accounting and Finance with the guidance and support of the research advisor, Dr. Degefa Duressa.

I, also declare that this thesis is my original work and that all sources of materials used for the thesis have been duly acknowledged.

Declared by:

Name _____

Signature _____

Date _____

Confirmed by advisor

Name _____

Signature _____

Date _____

Addis Ababa University
College of Business and Economics
Department of Accounting and Finance
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Approved by the Board of Examiners:

Advisor: Degefa Duresa (Phd) **Signature**: _____ **Date**: _____

Examiner: _____ **Signature**: _____ **Date**: _____

Examiner: _____ **Signature:** _____ **Date**: _____

Abstract

The objective of this study is to identify challenges and prospects of import customs clearance in Ethiopian Revenue & Customs Authority (ERCA). The research method used for this study is qualitative and quantitative (mixed) approach concurrently. Research data was collected from 60 ERCA customs officers and 48 importers /customs clearing agents. The sample from ERCA customs officers were selected using random sampling while importers/customs clearing agents were selected using cluster sampling technique. Open and closed-ended questionnaires and semi structured interviews were administered to the selected sample group. Both the questionnaires and the interview questions touch key characteristics of efficient and modern customs system and trade facilitation indicators. The research finding reveals that customs clearance delay is the main challenge of importers. Customs clearance delay occurs mainly at customs valuation and tariff classification work flows of the customs clearance procedures. Mistrust between the tax authority and importers/customs clearing agents, lack of human resource development, excessive requirement of commercial documents,, lack of stakeholders' consultation, continuous amendment and revision of customs regulation, and absence of single-window service, are the main causes of the prevailing customs clearance delays. Based on findings of the study, among others, the following recommendations have been forwarded:

- *Encourage voluntary compliance supported by post-clearance audit system,*
- *Establishment of single-window service,*
- *Define documents requirement clearly,*
- *Exert all possible efforts on human resource development with the objective to create performance oriented and professional labor force.*
- *Conduct time release study on the entire customs system of the country*

***Key words**: Challenge, Compliance, Conventions, Customs Clearance, Trade Facilitation, Single-Window Service, Post-clearance Audit, Time Release Study.*

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Acronyms

ACOS	Automated Customs Operation System
ADC	Additional Duty of Customs
ASYCUDA	Automated System for Customs Data
BDV	Brussels Definition of Value
BPR	Business Process Re-Engineering
COMESA	Common Market for East and Southern Africa
CVA	Customs Valuation Agreement
EAC	East Africa Community
EAC CU	East Africa Community Customs Union
EC	Ethiopian Calendar
ERCA	Ethiopian Revenue and Customs Authority
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement of Trade and Tariff
GTP	Growth and Transformation Plan
HS	Harmonized System
ICT	Information Communication Technology
IFC	International Financial Corporation
IMF	International Monetary Fund
IT	Information Technology
LPI	Logistics Performance Indicator
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade and Industry
OECD	Organization for Economic Cooperation and Development
RKC	Revised Kyoto Convention
ROO	Rule of Origin
SME	Small and Medium-Sized Enterprises
TFA	Trade Facilitation Agreement
TFI	Trade Facilitation Indicator
UNECE	United Nations Economic Commission for Europe

VAT	Value Added Tax
VRIS	Value Range Information System
WCO	World Customs Organization
WTO	World Trade Organization

CHAPTER ONE

1. INTRODUCTION

According to Brown and Jackson (1990), the principal reason for taxation was to pay for government expenditure. In addition to being source of government revenue, taxes serve to reduce gap between rich and poor, to control inflation, to reduce consumption of demerit goods, to protect local industries, etc.

In modern economies, taxation has become part and parcel of all economic activities although it fails to meet its intended objectives in many developing countries. Developing countries have different problems in taxation, including provisioning of basic social services from taxation (Damme et al. 2008).

In most developing countries, like Ethiopia, the revenue generated by the government in the form of tax is quite less than the government expenditures. This low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of tax administration or on account of straight forward collusion between the tax administration and tax payers (Asaminew 2013).

Customs duty, taxes and related charges on imported goods is one of the major sources of government revenue in Ethiopia. As such, the incumbent tax authority should modernize its tax system, facilitate international trade in such a way to deliver efficient and effective service, generate more revenue to the government and contribute to the overall economic development of the country. The Ethiopian "Customs Proclamation No. 859/2014" has been issued with the view to address those key characteristics of an efficient tax authority. However, there is a delay in clearing imported goods from customs stations which leads to higher transaction cost.

The objective of this study is; therefore, to explore the main causes for customs clearance delays and its effect on trade facilitation with special focus on import customs clearance. The study has been conducted in the Ethiopian Revenue and Customs Authority Head Office, Bole International Cargo Terminal Customs Branch and Kality Multi-Modal Customs Branch.

The remaining part of this chapter is structured in seven sections put in the following manner: the first section is dedicated for the background of the study. The statement of the problem which inspires the researcher to undertake this study is found in the second section. Objective of the study is mentioned in the third section followed by research method used on the fourth section. Section five is about significance of the study. Scope and limitation is found on the sixth section while the seventh section shows the organization of the remaining research part.

1.1 Background of the Study

Among the different types of taxes, customs duty is one of the most important sources of government revenue (Damme et al. 2008). Since 1992/1993, the government of Ethiopia has made major economic policy shift from central planning to market oriented economic system. In line with this change a series of tariff and tax reform measures have been undertaken. The reasons for this were: outdated tariff and tax laws; weak customs and tax administration; failure of the tariff and tax regime to attract investment to facilitate trade and to generate adequate revenue to cover current and capital expenditure, and hence finance development and poverty reducing projects (Yohannes and Sisay, 2009)

In addition to the above, the Ethiopian government has been undertaking various reforms and structural adjustments including the issuance of the recent "Customs Proclamation No. 859/2014". This Proclamation has been enacted fundamentally to establish modern customs legal framework compatible to the contemporary international trade practice, and international, continental and regional trade agreements to which the country is a member. The Ethiopian Revenue and Customs Authority is the forerunner for the full flag implementation of the proclamation and issuing compatible regulations, policies and procedures which streamline the customs system for expedient import/ export clearance and international trade facilitation.

Ethiopia is also a member state of few international and regional intergovernmental organizations and economic communities. Among these, the World Customs Organization (WCO) in 1973 and the Common Market for Eastern and Southern Africa (COMESA) as a founding member in 1994 are the major ones. Ethiopia is also undergoing cumbersome and long process to become member of the World Trade Organization (WTO). As such, all

customs regulations of the country related to international trade are required to comply with those international and regional intergovernmental organizations and economic communities" requirements. With the overall objective to achieve the first five year Growth and Transformation Plan (GTP) and foreseeing the second five year GTP of the country, the government of Ethiopia is exploring several sources to finance its public expenditures and pursue its fiscal policy. These sources include tax, and non-tax revenues. Since the establishment of ERCA in 2008, the Ethiopian tax system has undergone significant modernization processes including the use of latest information communication technologies (ICT). Currently ERCA is using the Harmonized Commodity Description and Coding System, commonly known as the Harmonized System (HS). It is a multipurpose international product nomenclature developed by the World Customs Organization (WCO). ERCA is also using Automated System for Customs Data ++(ASYCUDA++), which classifies imports depending on their risk as Green (risk free), Yellow (less risky) and Red (high risk).

Although ERCA has undergone through major structural adjustments and tax reforms, and has started using certain ICT tools to modernize the tax system, previous researches concluded that there is customs clearance delay of imported goods in the Ethiopian customs administration.

On the basis of the above background, this study is initiated to explore the main causes of customs clearance delay of imported goods in the Ethiopian Revenue & Customs Authority (ERCA) and the challenge this delay poses on trade facilitation.

1.2 Statement of the Problem

Among other objectives, taxation in Ethiopia has been used for the purpose of raising as much revenue as possible to meet the ever-expanding public expenditure needs of the government. Primarily, this objective can be met as long as there is modern and efficient tax system, particularly in areas where the efficiency would bring significant contribution to the overall economy of the country. According to G/Wahid (2011), a study conducted on ERCA, indirect taxes contribute 66.85% of the total tax revenue. Of this, 40.23% comes from import and export tax revenue, the revenue from import duty being the highest source of revenue.

Although Ethiopia is member of the WCO and the Common Market for Eastern & Southern Africa (COMESA), and has amended customs legislation in light of those international and regional conventions, import customs clearance is characterized by different challenges contrary to the stipulation in those conventions and in the national legislation.

According to Getaneh (2011), taxpayer/business owners lack awareness regarding the tax type to be imposed on their business, goods and services exempted from tax, allowable and disallowable expenses, and reporting and filing requirements of the tax law. One of the major misunderstandings of taxpayers, particularly those whose firms involve in import business, is regarding the duty paying value of imported goods.

Another research conducted by Tsegaye and Endris (2011) on the impact of customs clearance procedures with special focus on major custom stations, the national average import clearance time is 13.8 days while the East Africa Community where Kenya, Tanzania, Uganda, Rwanda and Burundi are members, average import clearance at Customs stations is 4.20 days.

A research finding by Teweldberhan (2011) also shows that, although improvement exists following the restructuring of ERCA and the introduction of ASYCUDA and the Harmonized System, import customs process is characterized by clearance delays. Although previous studies have clearly shown that there is customs clearance delay in major customs stations, those studies did not clearly show the main reasons for the prevailing customs clearance delay.

Although the government‟s effort to solving customs clearance problem and the aforementioned studies, the prevailing customs clearance challenge calls for further study to identify causes of the challenge and the prospect of imported goods customs clearance in ERCA.

1.3 Objectives of the Study

1.3.1 General Objective:

The general objective of this study is to identify the challenges and prospects of import customs clearance in Ethiopian Revenue & Customs Authority (ERCA) and its consequence on trade facilitation, and finally to make recommendation based on research findings.

1.3.2 Specific Objectives:

Specific objectives of the study focus mainly on identifying availability and testing application of the following efficient and expedient customs procedures and trade facilitation indicators within ERCA:

1. Identify the workflow in the entire customs clearance process,
2. Assess understandability, predictability and accessibility of customs regulation and procedures,
3. Ascertain availability of consultation of the trading community on customs regulations and procedures,
4. Identify availability of cooperation among government regulatory bodies and obtaining required customs documents under a single-window service,
5. Ascertain availability of proper trainings to customs officers and customs clearing agents on customs procedures,
6. Evaluate efforts being undertaken by the tax authority to improve time release of imported goods at customs stations,
7. Evaluate the consequence of customs clearance challenge on trade facilitation.

1.4 Research Question

In order to achieve the above broad objective, the researcher has developed two research questions as shown below. A research conducted by Buyonge and Kireeva (2008), as cited in the World Customs Journal shows that, on average, customs clearance take 30 days in Ethiopia while African average is 12 days and developing countries like Estonia and Lithuania require only one day for customs clearance. Another research conducted by Tsegaye and Endris (2011) shows that average customs clearance time in Ethiopia is 13.8 days. Both research findings are above the average customs clearance time for Africa in general and for East Africa in particular. This research is undertaken to answer the following question:

a) What is/are the main challenge/s of imported goods customs clearance at major customs stations in Ethiopia?
b) What is/are the consequence of customs clearance challenge in import business in Ethiopia?

1.5 Significance of the Study

To the knowledge of the researcher, the role of efficient customs clearance process in facilitating international trade of the country in particular and the challenge that exist in customs clearance process in general has been studied very little. Even though the government continues to modernize the overall tax system of the country in many ways, the efficiency of the tax administration has not reached to the required level yet as it is stipulated in the national legislation. In order to help identify root causes of the problem, ERCA"s efforts should be supported by academic researches. The significance of this study is its contribution to the existing academic research gap and inspire other researchers recognize the gap in the field of Ethiopian import – export business. In addition to the above, this research contributes to the effort of the Ethiopian Revenue and Customs Authority in its endeavor to establish expedient and efficient customs clearance system in Ethiopia and to create modern business environment of just-in-time production and delivery system in an international trade context.

1.6 Scope and Limitations of the Study

Regardless of the volume of work involved in import/export clearance, there are about 22 customs stations in the country. According to a data collected in June 2015 from the Ministry of Trade and Industry (MoTI), there are 36,921 registered importers. This figure encompasses traders ranging from huge machinery importers to those who import tiny pieces of consumption goods, and some are not even actively engaged in the import business. The researcher has tried to refine this figure by collecting importers data from the Ethiopian and Addis Ababa Chamber of Commerce and Sectoral Association offices. The result shows incomparably less figure because membership of these Associations is on a voluntary basis. This makes difficult to determine the exact number of active importers.

Partly due to the volume of work, the issue of import tax within the Ethiopian customs system is very broad and complicated which requires much resource to undertake rigorous research of the entire system. For this reason, in addition to the ERCA Head Office, this research will cover only two of the major customs stations namely Bole International Cargo Terminal and Kality Multi-Modal customs stations to conduct the study. In addition to the above limitation, the researcher has selected only three import categories which are engaged in importing capital intensive and diverse products in selecting target group of the study. The interview and questionnaires were also be administered only to randomly selected customs officers, importers from the three import categories and transit/customs clearing agents. However, since the selected customs stations handle major land and air cargo import clearance, the researcher believes the research finding will be representative of the overall ERCA"s customs clearance practice for imported goods.

In addition to the above limitations, though trade facilitation is of a concern to the Ministry of Trade and Industry (MoTI) and the Ethiopian Chamber of Commerce and Sectoral Association as well this research did not include these institutions due to time, financial and other logistical constraints.

1.7 Organization of the Paper

The entire research work of this paper is presented in five chapters. As shown above, the first chapter deals with introduction including background of the study, statement of the problems,

objectives of the study, significance of the study, scope and limitation of the study and finally on how the paper is organized.

The second chapter has been dedicated for related literature review. Under this chapter, relevant literatures from different sources have been discussed. Empirical studies in the context of different countries have also been discussed in the last part of this chapter. In the third chapter, the research design including the methodology adopted and techniques used in data collection are presented. The fourth chapter analyzes the data and discusses the results of the study. Finally, the fifth chapter presents the conclusions and recommendations based on findings of the study.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Definition of Customs and Customs Law in Relation to International Conventions

The term „Customs" applies to both the government institution which is the executive organ for customs administration, and to the duties executive organ collects as well as the rules pursuant to which it operates.

As such, customs is defined as the government service which is responsible for the administration of customs law and the collection of duties and taxes and which also has the responsibility for the application of other laws and regulations relating to the importation, exportation, movement or storage of goods in international trade. Similarly, customs law is defined as the statutory and regulatory provisions relating to the importation, exportation, movement or storage of goods, the administration and enforcement of which are specifically charged to the customs, and any regulations made by the customs under their statutory powers (Revised Kyoto Convention, Annex E6).

From the above definitions, we can understand that the term „customs" is used in relation to import, export and transit of goods in international trade. Following the expansion of international trade, the application of customs in import, export and transit goods required existence of uniform application and administration of customs process. The General Agreement on Tariff and Trade (GATT 1994) and the Revised Kyoto Convention are the two prominent international conventions containing fundamental regulations that govern customs in international trade.

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

2.2 The Revised Kyoto Convention

The WCO has remained in the forefront to guiding the effectiveness and efficiency of its member customs administrations across the globe. Since its establishment in 1952, different and pivotal international conventions have been signed through the sponsorship of the WCO. The Kyoto Convention, which was first signed in 1973 and that provides customs administration with a modern and predictable customs procedures and effective customs control, was one of those conventions.

The Revised Kyoto Convention (RKC), which reflected the economic and technological changes and incorporated best practices of member administration, was adopted by the WCO‟s 94 Session on 26 June 1999 (Mikuriya, 2005 in Teweldberhan 2011).

The Revised Kyoto Convention aims at the following principles:

- Eliminating divergence between customs procedures and practices of contracting parties that can hamper international exchanges,
- Meeting the needs of international trade and the customs for facilitation, simplification and harmonization of customs procedures and practices,
- Ensuring appropriate standards of customs control,
- Enabling the customs to respond to major changes in business and administrative methods and techniques.

Generally, the Revised Kyoto Convention is widely recognized as the blueprint for modern and efficient Customs procedures. The Convention contains modern customs formalities and procedures, harmonized customs documents for use in international trade and transport, and provides for the use of risk management techniques and the optimal use of information technology by customs administration (Teweldeberhan, 2011).

2.3 Customs Procedures

The term customs procedure refers to the treatment of goods by customs administration as might be highlighted in the national legislation. Customs procedures cover the whole spectrum of the customs system of control and facilitation of imported and exported goods, the movement of passenger, and goods in transit. From a trade facilitation perspective, the

World Customs Organization (WCO) International Convention on the Simplification and Harmonization of Customs procedures and commonly known as the Revised Kyoto Convention (RKC) is the guiding principles of customs procedures. The RKC is acknowledged as the main international instrument covering trade facilitation as it pertains to the role played by customs administration in the global trading system (Teweldebirhan, 2011).

In the modern business environment of just-in-time production and delivery, it has become ever more important that traders are guaranteed fast and predictable release of goods. Since customs is the foremost agency at the border and plays a prominent role in the release of goods, customs should strive to reduce the complexity of clearance procedures and to limit their information requirement only to what are really necessary.

Moreover, modern business administrations should recognize that streamlining and simplifying clearance procedures is of benefit to importers, exporters and to the overall national economies. Primarily, this helps to achieve the goal of offering efficient and effective clearance procedures, while continuing to maintain their traditional duties of revenue collection and enforcement activities. For this reason, customs administrations in developed countries are increasingly introducing simplified procedures.

2.4 Customs Risk Management

Due to the growing volume of trade movements and the need to supervise the supply chain, customs authorities are forced to use risk management and effective and efficient controls to avoid unwanted disruption to legitimate business and deploy resources efficiently.

Effective management of risk in the international supply chain is also crucial to ensuring the security and safety of citizens, the protection of the financial and economic interest of a country, while at the same time facilitating legitimate trade.

Risk analysis is required as early as possible in the supply chain at the time of loading of shipment, or before export, and before importation. The security preparedness of all

stakeholders in the international trade has an impact on the level of risk associated with the overall supply chain.

Risk management can operate in any organization; can use manual or automated applications. While the overall risk management principles remain the same for all customs agencies, each administration will need to develop and refine its individual risk management regime to meet national and departmental objectives. Such an approach has the potential to improve effectiveness and efficiency and can significantly help build the ability to deploy resources toward the greatest areas of risk.

Effective risk management is central to modern customs operations and provides the means to achieve an appropriate balance between trade facilitation and regulatory control (Widowson, 2007).

2.5 Customs Administration, Customs Valuation and Customs Duty

2.5.1 Responsibilities of Customs Administration:

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

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

Traditionally; however, customs administrations have been responsible for implementing a wide range of government policies, including revenue collection, trade compliance and facilitation, interdiction of prohibited substances, protection of cultural heritage and enforcement of intellectual property laws. This breadth of responsibility reflects the fact that customs authorities have long been entrusted with administering matters for which other

government ministries and agencies have policy responsibility, such as health, agriculture, environment, trade and in some cases, immigration. However, this can be achieved through the implementation of a diverse range of service level agreements; with customs having regulatory responsibilities of collecting duties on internationally traded commodities. This includes the collection of other forms of tax, such as valued added tax (VAT) and excise duties.

Nevertheless, according to Widdowson (2007), the current trend towards global free trade and the recent heightening of international terrorism concerns have seen border security emerge as a priority across all economies.

2.5.2 Customs Duties

According to the East African Customs Union, Article 1 of the „*Protocol on the Establishment of the East African Customs Union*", Customs duties is defined as an import or export duties and other charges of equivalent effect levied on goods by reason of their importation or exportation. This definition includes fiscal duties or taxes where such duties or taxes affect the importation or exportation of goods. But it does not include internal duties and taxes such as sales, turnover or consumption taxes imposed otherwise than in respect of the importation or exportation of goods.

2.5.3 Customs Valuation

The customs value is essential to determine the correct amount of any customs duty to be paid on imported, exported and transited goods. In the majority of cases customs duty is charged as a percentage of the value of the goods being imported known as "ad valorem duty". In order to calculate the amount of duty payable the customs value must first be established.

The term "Customs valuation" has been defined differently by different institutions. According to the East African Customs Valuation Manual (2010), Customs valuation refers to the process and method used by customs authorities to determine the value of particular imported/exported goods. Since tariffs are usually calculated as a percentage of the value of the goods (under ad valorem basis of customs valuation), the particular method used to determine value will directly affect the amount of tariff duties collected on a particular item.

The European Economic Commission Customs Manual for Valuation (2014) defines Customs valuation as a system that is used to determine the value of goods when they are being entered into the various customs procedures.

Generally, customs valuation is the determination of the amount upon which duty is calculated. Customs valuation is a necessity, particularly when rates of duty are established on an ad valorem basis. Here, it should be noted that the way value is defined is determinant of the customs valuation system applied.

2.5.4 Methods of Customs Valuation

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

- Transaction Value (Article 1)
- Transaction Value of Identical Goods (Article 2)
- Transaction Value of Similar Goods (Article 3)
- Deductive Value (Article 4)
- Computed Value (Article 5)
- Residual or Fallback Method (Article 6).

2.5.4.1 Transaction Value: is the price actually paid or payable for the goods, subject to adjustments provided for in Article 8 of the Agreement. Transaction value method is the primary method of customs valuation. The remaining five alternative methods can be applied (in sequential order) only in cases where the transaction value method is not applicable. According to Kafeero (2009), the transaction value method is currently the most important valuation method in application – being used in more than 90% of the world trade.

2.5.4.2 Transaction Value of Identical Goods: is the transaction value of identical goods sold for export to the same country of importation and exported at or about the same time

as the goods being valued. This method is used where the customs value cannot be determined using transaction value mentioned under 2.5.4.1.

2.5.4.3 Transaction Value of Similar Goods: is the transaction value of similar goods sold for export to the same country of importation and exported at or about the same time as the goods being valued. The conditions and adjustments considered under this method are the same as those in the previous methods.

2.5.4.4 Deductive Value Method: under the deductive value method, the customs value is based on the unit price at which the imported goods or identical or similar goods are sold in the greatest aggregate quantity in an unrelated party transaction, subject to the deduction of profits and certain costs and expenses incurred after importation.

2.5.4.5 Computed Value Method: under this method, customs value is determined by adding the cost of production of the goods being valued, the usual profit and general expenses in sales of good of the same class and kind made by producers in the country of exportation. If the country of importation uses the CIF basis of valuation, then transportation and related costs to the port of place of importation have to be part of the sum. „Deductive Value" and „Computed Value" methods can be used in a reversal order upon request of the importer.

2.5.4.6 The Fallback Method: is used only if the methods provided for in Article 1 through 5 cannot be used in a strict or exact way. Thus, under this method, the customs value is determined by applying any of the previous methods that is deemed most appropriate in a flexible manner.

2.6 Customs Modernization and Automation

The Revised Kyoto Convention is the generally accepted reference point for the key principles of customs administration modernization. Customs modernization is about the full range of customs operations. Its main objective is to ensure that customs administrations constantly keep pace with developments in international trade, whether of a technological, legal or economic nature.

Customs administration is shaped by the international customs framework established by the World Customs Organization (WCO) conventions and the obligation emanating from World Trade Organization (WTO) membership (Montagnat-Rentier and Parent (2012)).

Modernizing customs administration involves establishment of transparent and simple rules and procedures and promoting voluntary compliance by building a system of self-assessment supported by well-designed audit procedure. Implementing this, however, requires addressing a range of issues, involving links with trade policy, organizational reform, the use of new technologies, the appropriate nature and extent of private sector involvement, designing incentive systems to overcome governance issues – and many others (Ter-Minassian in Justin Zak 2011).

Customs modernization program can be accelerated by parallel introduction of a customized capacity building plan to enable customs administration to implement the necessary changes to its management and operational environment.

Generally, customs modernization is all about the full range of customs operations. Therefore, the main objective of customs modernization is to ensure that customs administration constantly keeps pace with developments in international trade, technological advancement, economic nature, and legal requirements.

2.6.1 Characteristics of Modern Customs Administrations

Customs modernization heavily relies on the intensive use of modern information technology to provide for flawless transmission of data to all interested members of the trading community. Current practices witness that most customs administrations have become heavily reliant on electronic submission of manifests before arrival of shipments. In the future, electronic payments of duties and taxes may evolve from the current practice of electronic data transmission and this will accelerate customs modernization.

According to Zake (2011), modernized customs administration usually exhibits the following characteristics:

- Self assessment,
- The use of risk-based approaches to compliance management,
- A service orientation that includes broad provision of information to and engagement with the private sector supported by swift dispute resolution mechanisms,

- Full automation of transactions processing and management information support, and
- Extensive use of trader segmentation to implement trade facilitation and
- appropriate compliance strategies.

Automation (the use of information and communication technology) is one of the facets of modern customs administration. Because, it helps to support the entire customs clearance process: from lodging, acceptance and processing of cargo and goods declarations for import, export and transit, payment of duties and taxes; to the release of goods from customs control.

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

2.6.2 Benefits of Customs Administration Reform and Modernization

The following benefits are expected from reforming and modernizing customs administrations:

- Increased trade, improved economic performance and enhanced competitiveness that encourages foreign and domestic direct investment,
- More predictable and faster movement of goods, including transit goods,
- Increased government revenue,
- Reduction in the costs of doing business for all stakeholders,
- Improved security of international transactions through strengthened control of high risk transactions,
- More improved detection of non-compliance using risk based approaches,
- Better coordination and streamlining of roles and responsibilities between customs and other government border and regulatory agencies.

2.6.3 Harmonized Commodity Description and Coding System

The Harmonized Commodity Description and Coding System, commonly known as the Harmonized System (HS) is a multipurpose international product nomenclature developed by the World Customs Organization (WCO 1983), which consists of headings and subheadings and the related numerical codes.

The HS contributes to the harmonization of customs and trade procedures, and the non-documentary trade data interchange in connection with such procedures. As a result of this, costs related to international trade reduces. The HS also helps governments, international organizations and the private sector to improve internal taxes and trade policies; monitor controlled goods; determination of rules of origin, facilitate freight tariffs and transport statistics; regulate quota controls; and undertake economic research and analysis. According to Kafeero (2009), the HS is a universal economic language and code for goods and an indispensable tool for international trade.

The HS, governed by "The International Convention on the Harmonized Commodity Description and Coding System" is subject to constant review and is updated every four to six years.

It is evident that the international trade has become involving many countries of the world and more complex from time to time. As a result of this, governments around the world demand greater effectiveness from their customs administrations.

According to Kafeero (2009) the East African Customs Partner States agreed to harmonize their customs nomenclature and standardize their foreign trade statistics to ensure comparability and reliability of relevant information. To this effect, they adopted the Harmonized Commodity Description and Coding System.

2.7 Trade Facilitation

The World Trade Organization (WTO) is the only international organization dealing with the global rules of trade between nations. Its main function is to endure that trade flows as smoothly, predictably and freely as possible. According to their mandates and objectives, different authors and organization define trade facilitation in different ways. Buyonge and Kireeva (2008) define the term „trade facilitation" as the simplification and harmonization of

international trade procedures" including the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade. The United Nations Economic Commission for Europe (UNECE) defines trade facilitation as a "comprehensive and integrated approach to reducing the complexity and cost of the trade transactions process, and ensuring that all these activities can take place in an efficient, transparent, and predictable manner, based on internationally accepted norms, standards, and best practices". Layton (2008) defines trade facilitation as "the simplification and harmonization of international trade procedures covering the activities, practices and formalities involved in collecting, presenting, communicating and processing data and other information required for the movement of goods in international trade". According to Hansen and Annovazzi-Jakab (2008), as sited in the 2008 World Economic Forum Report, trade and transport facilitation addresses a wide agenda in economic development and trade that may include improving transport infrastructure and services, reducing customs tariffs, and removing non-tariff trade barriers including administrative and regulatory barriers. This similar topic has been defined by Tilahun (2014) as an activity that involves economic, political, business, administrative, technical and technological as well as financial issues all of which converge at easing the cost and time of trading across borders.

Although the wordings of the above definitions seem different, basically, the central idea is one and the same, that is, dealing with international trade in an expedient, efficient, standardized, predictable and transparent way. The only difference in the above definitions is that each institution tries to underscore its mandate in the respective definition.

Thus, it is possible to generalize that trade facilitation looks at how the procedures and controls governing the movement of goods across national borders can be improved to reduce associated costs and maximize efficiency while safeguarding legitimate regulatory objectives. For this reason, trade facilitation is a diverse and challenging subject with benefits for both business and government at national, regional and international levels.

2.7.1 Indicators of Trade Facilitation Performance

OECD has developed a set of trade facilitation indicators that identify areas for action and enable the potential impact of reforms to be assessed. The OECD indicators cover the full

spectrum of border procedures, from advance rulings to transit guarantees, for 133 countries across income levels, geographical regions and development stages. Estimates based on the indicators provide a basis for governments to prioritize trade facilitation actions and mobilize technical assistance and capacity-building efforts for developing countries in a more targeted way (Chimilila, 2014).

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

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

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

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

Source: *OECD, 2015*

The above trade facilitation indicators provide the most current assessment of the potential impact of implementing the measures included in the WTO Trade Facilitation Agreement (TFA). They also allow countries to identify their strengths and weaknesses in trade facilitation, prioritize areas for action and mobilize technical assistance and capacity building

in a more targeted way. The OECD TFIs also help to measure the actual extent to which countries have introduced and implemented trade facilitation measures in absolute terms, and also their performance relative to others, using a series of quantitative measures on key areas of the border process.

According to the OECD (June 2015), improvements in the area of formalities (simplification of trade documents; streamlining of border procedures; and automation of the border process) appear to have the greatest impact on trade costs, generating cost savings of 2.8% to 4.2%, depending on the level of development. Other policy areas that have an important potential impact for cost reductions are the availability of trade-related information and the possibility to request advance rulings.

Accordingly, for low income countries the measures with the potential to most reduce trade costs are: harmonizing and simplifying trade documents (4.2%); automating trade and customs processes (3.6%); ensuring the availability of trade-related information (2.8%) and streamlining border procedures (2.8%).

For lower middle income countries, streamlining border procedures are estimated to have the greatest impact (3.9%), while harmonizing and simplifying trade documents and automating trade and customs procedures would reduce costs by 3.5% and 2.9% respectively.

2.7.2 Single-Window Service and Trade Facilitation

The movement of border crossing goods in international trade is characterized by inefficiency, high cost and lack of coordination among regulatory bodies of international trade, burdensome procedures and complex documentation. Single window service is about cooperation and structural arrangement of border agencies of the different government units in such a way that best serve the needs of citizens and businesses. It is a widely used term in the area of international trade. The idea of single window service to international trade challenges the conventional models of regulatory control of the movement of goods and means of transport. Under a single window service approach traders would receive government services through a single interface to government. The complex multi-agency organization arrangements that go into the service delivery should be transparent to the

consumers of the services, leading to increased efficiencies and reduction in the transaction costs of regulations.

Introduction of single window service brings all regulatory bodies under one roof and enhances trade facilitation significantly. Single window approach clearly brings out all the procedural redundancies, duplication in the filing of information and the wastefulness involved in the overall efforts in fulfilling cross border regulation (Davis, et al. 2009 as cited in WCO 2011).

2.8 Review of Empirical Studies on Customs Valuation and Trade Facilitation

Customs procedures have been and will remain major concern of international trade. Bilateral and multilateral agreements have been ratified and intergovernmental international, continental, and regional organizations have been established by different countries to facilitate cross-border trade among nations. Governments also have been striving individually to modernize their respective customs procedure with the view to increase its effectiveness and efficiency. A number of researches have also been conducted related to customs valuation procedures and trade facilitation. Under this topic, findings and corresponding conclusions on different researches conducted in India, Kosovo, Philippines, Eastern African Community (EAC) and Ethiopia have been discussed.

According to Buyonge and Kireeva (2008), the term „trade facilitation" is defined as the simplification and harmonization of international trade procedures" including the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade.

However, recently, the definition of trade facilitation has been broadened to include the transparency and professionalism of customs authorities, harmonization of various standards and conformity to international or regional regulations.

2.8.1 Review of Empirical Studies in Different Countries

Buyonge and Kireeva (2008), as cited in World Customs Journal, have shown that Africa registered the highest customs delays of 12 days on average in the world. As shown on the

same document, Estonia and Lithuania require one day for customs clearance; and Ethiopia averages 30 days.

Being landlocked by itself is associated with high logistics cost and many developmental problem. A joint report produced by the World Bank Group and the United Nations (2014) concludes that trade costs in a typical landlocked developing country is 1.5 times higher than in a corresponding coastal/transit country, while the volume of trade is 60% lower.

However, even in landlocked countries, customs modernization helps to improve the efficiency and effectiveness of customs procedures thereby enhances trade facilitation. For example, a research conducted by Tsegaye and Endris (2011) on one of the landlocked African countries, Uganda, shows that Uganda undertook a comprehensive reform program which aimed at trade liberalization and customs modernization in the 1990s. The reforms included an overhaul of the entire customs authority including significant changes to the tariff schedule, improvements of the customs legislation, emphasis on human resources management, implementation of ICT through ASYCUDA++, and simplification of customs procedures. As a result, income of the Uganda Revenue Authority increased from 7.7% to 13.0% of GDP in the ten-year period to 2002.

Chimilila et al (2014) have conducted a research on trade facilitation in the East African Community Customs Union (EAC CU) by tracking the implementation and achievements using Tanzania as a case. The researchers used descriptive research approach to trace the performance of trade facilitation in EAC Customs Union.

The study makes use of OECD‟s Trade Facilitation Indicators (TFI) as well as the World Bank‟s Logistics Performance Indicators (LPI) to evaluate the level of trade facilitation in the country and relate performance in TFI and LPI with actual performances in the EAC economies in terms of trade, foreign direct investment (FDI) and trade taxes performance.

The study found that, as a result of implementation of trade facilitation initiatives, performance in trade, FDI inflows and trade taxes collection in all EAC countries have improved significantly. Tanzania performs better than other EAC countries in FDI inflows

and contribution of export to the Gross Domestic Product (GDP). The study also found a significant positive relationship between countries‟ trade facilitation and export performance. The major hindrances of trade facilitation are non-tariff barriers, transport infrastructure, inadequate human resources capacity, and low level of automation.

Another research regarding the challenge posed by customs procedures on business performance was conducted by Mario and Florin (2011) in the case of Kosovo. The study aims to identify formal and informal institutional factors in customs procedures and their impact on the performance of small and medium-sized enterprises (SMEs) involved in international trade in Kosovo.

The research hypothesizes that one of the most important institutional obstacles encountered by SMEs in the import-export sector is regular appeals against customs decisions. According to this research, there is a positive and significant correlation of formal customs institutions that facilitate the trade of imported goods with economic impact. This result supports the efforts made by the WTO and WCO in the field of trade facilitation. On the other hand, this research suggests that the commonly badly perceived customs behaviors such as red tape, corruption, and audit controls apparently do not influence the level and growth of turnover of Kosovo SMEs engaged in international trade. This finding does not match earlier results of Xheneti (2006) on Albania in which a positive relationship was recorded. Generally, the research finding suggests that regular appeals against customs decisions represent one of the major institutional obstacles encountered by SMEs in the import-export sector. This supports earlier results on Kosovo by Krasniqi (2007). The research finding also suggests that institutional support should be directed towards the simplification of customs procedures in order to reduce the compliance costs of firms.

Finally, the researchers conclude that reforms of formal customs procedures are likely to improve the efficiency of doing business in Kosovo.

Mishra et al (2008) have conducted a research to examine the effect of tariff policies on evasion of customs duties in the context of trade reform in India in the 1990s.

The objective of the research was to contribute to the existing literature in testing the impact of tariff policies on evasion and, refining the estimated effects, and to show how enforcement-related characteristics affect the responsiveness of evasion with respect to tariffs.

According to this research, tariffs are not the only tax levied on imports in India. Other taxes include surcharge, additional duty of customs (ADCs), special additional duty, anti-dumping duties, and safeguard duties. However, by far the most important of these is the ADCs, which is the counterpart on imports of the equivalent excise duty that is imposed on goods produced in India. This duty is also sometimes known as the countervailing duty.

As mentioned above, the two contributions of the paper have been to better identify the effect of tariffs on evasion, and to show empirically how enforcement-related factors could affect evasion elasticity.

The findings suggest that there is strong relationship between customs duty evasion and tariffs. According to the research finding, elasticity of evasion with respect to tariffs varies depending on whether a product enters India through a seaport or an airport. The coefficient on the interaction of the tariff and the share of the total number of transactions going through airports is negative in all cases and significant. This suggests that enforcement may be better at airports than at seaports. This finding is consistent with the fact that at least one aspect of enforcement „computerization" was significantly more advanced in airports rather than seaports.

In conclusion, the research found a significant and strong impact of tariffs on evasion. In addition, the research found strong evidence that the evasion elasticity is affected by product-related characteristics that potentially capture the ease of enforcement. For differentiated goods (whose prices are less well known and determined more by specific transactions) and products that exhibit a high variance of unit price, the result shows that the elasticity of evasion is substantially higher.

Under this part, another empirical research on customs valuation reform in the Philippines case is also reviewed. The research was conducted by Clarete (2004). This research covers the

adoption of transaction valuation reform in the Philippines and assesses its impact on collection, customs administration cost, and business transaction cost. It has been a major concern of the Philippine customs authorities and critics of the reform that giving up the use of „published official customs values" in order to adopt transaction values whether it would lower customs collection.

According to the above research, the Philippines government had undergone a series of changes in its customs valuation before the adoption/reform of the WTO"s transaction value rules. The study shows that before adoption of the transaction value in 2000, the rules virtually allowed customs authorities to exercise discretion. Accurate, reliable and timely information was costly to acquire and the rules failed to provide specific instructions when to use one valuation rule over another. The virtually multiple valuation rules regime subjected import businesses to uncertainty and compelled importers to make deals with customs authorities to secure the most privately profitable terms for their businesses.

Clarete in this research highlighted that in order to alleviate the fear of undervaluation, a valuation range information system (VRIS) was established. The system consists of ranges of value of imported goods, which in turn are the respective minimum and maximum values of a given goods imported in the immediately preceding the last update of these value ranges.

In the above referenced research, the impact of the shift/reform to transaction valuation was estimated using a panel of data of revenue collection, import volumes, import values, and related variable, and using the Automated Customs Operations System (ACOS) data in three major ports of the country. According to the study, all the three account for nearly 80% of the total collection of the Bureau.

Before the adoption of transaction value in the Philippines customs system, Medalla, de Dios and Aldaba (1993) had conducted a research and analyzed the effect on revenues of shifting to transaction values as represented by the invoice values. The authors estimated that customs revenues would have declined and this would have a negative effect on revenues. However, Clarete (2004) proved using the data on collection in the three major ports of the country for the period before and after the implementation of the reform, and the result of the analysis

indicated that the use of transaction values in determining the dutiable value of imports increased rather than decreased revenues of the Philippines government.

According to Clarete (2004), the total clearance time of imported cargoes in the Philippines ranges from 6.43 to 11.43 days before the transaction valuation reform. However, after the customs valuation reform was implemented the time interval dropped to 5.43 days, indicating a savings of from 1 to 5 days. According to this study, these improvements enabled the Bureau of Customs to save at an average US$ 68 per trade declaration.

2.8.2 Review of Empirical Studies in the Ethiopia Case

Tsegaye and Endris (2011) have studied the impact of customs clearance procedures on international trade in the case of Ethiopia. According to this study, in Ethiopia there are about 22 Customs Stations involved in import/export handling. By referring to the Ethiopian Revenue and Customs Authority, the study discloses that the volume of export of Ethiopia in 2010 was 1,626.9 million tons while the volume of import was 7,051.5 million tons.

The researchers evaluated their research findings of the time release of sea port imported goods against the World Bank report, the Business Process Re-engineering (BPR) study and other best practices. To better clarify the overall import business process, the researchers have broken down the process into three sub-processes. These sub-processes are document preparation from all regulatory bodies, inland transport from Djibouti port to Kaliti multi-modal customs station, and Customs clearance.

The research finding shows that the national average customs clearance time is 13.8 days. This does not include the time for other import processes such as document preparation from all regulatory bodies and inland transport from Djibouti port to Kaliti. Similarly, on average, document preparation takes 8.06 days and inland transportation takes 5 days. The research result also shows that the average total number of days required for the entire import process after the consignment arrived at Djibouti port is 26.86 days while the World Bank‟s estimate for the entire process in Ethiopia is 45 days.

The above empirical review clearly shows that there exists visible customs clearance delay in international trade in general and in import trade in particular at major customs stations in Ethiopia. However, the research finding does not show the main reason/s for customs clearance delays and the corresponding challenge this delay poses on international trade facilitation. The contemporary definition of trade facilitation has been broadened to include the environment in which trade transactions take place, including the transparency and professionalism of customs and regulatory environments, as well as harmonization of standards and conformance to international or regional regulations.

With regard to trade facilitation and ERCA‟s compliance to international and regional customs standards, another research has been conducted by Tilahun (2014) entitled as „Trade Facilitation in Ethiopia: The Role of WTO Accession in Domestic Reform‟. In this paper, the researcher highlighted the nature, economics, and benefits of trade facilitation; evaluated customs valuation practice of Ethiopia in terms of the WTO Customs Valuation Agreement; analyzed the impact and role of WTO Customs Valuation Agreement for trade facilitation in Ethiopia; reviewed publications of trade regulations and its accessibility in Ethiopia; and discussed the importance of consultation of stakeholders on trade regulations, availability of advance ruling, coordination among border agencies (regulatory government institutions) and availability of single-window service.

According to this research, customs valuation of goods is an important aspect of trade facilitation. The research finding underscores that in many countries, the discretion given to customs authorities in valuing trade for the imposition of tariffs and duties has been an important source of revenue. This practice is of a great concern to traders, as non-transparent valuation mechanisms typically combined with inefficient or even absent advance ruling mechanisms lead to uncertainties regarding the profitability of each trade transaction. ERCA has introduced several trade facilitation related policy measures which have not only streamlined the role of the customs department but has also helped the economy in a major way without compromising the collection of essential government revenue. However, the research finding shows that customs valuation is still an issue of particular concern for trade facilitation

The issue of voluntary compliance of traders was also discussed as part of the customs valuation problem. This research discloses that ERCA has recently initiated efforts to encourage voluntary compliance of customs and tax payer by implementing the Authorized Economic Operators (AEO) program. Such kinds of measures certainly demonstrate genuine intention of the government to initiate genuine reforms in the field of customs valuation although the researcher indicates that the problem was persisting. Finally, the researcher concludes that the main problem of customs valuation problem is absence of political will and sufficient legal framework for full implementation and realization of the WTO customs valuation agreement. In relation to this, the research highlights that implementation of reforms in trade procedures and trade regulations require purchase of equipment, training of people and establishment of systems of checks and balances.

Another problem identified in this research related to trade facilitation was the restrictive feature of the logistics service sector reform. According to this paper, Ethiopia‟s level of investment regulation with respect to logistics services is highly restrictive. Ethiopian Shipping and Logistics Services Enterprises (ESLSE) is the sole sea freight transport service provider in Ethiopia. As a result of this, the sector has fallen almost entirely into a state of state monopoly, nearly without internal and external competition and the transport sector has become one of the bottlenecks to international trade.

Availability, accessibility and transparency of trade related regulations and procedures are WTO requirements for member countries and are indicators of trade facilitation. Even though Ethiopia is not yet a member of WTO, according to this study, trade related official proclamations and laws which are approved by Parliament, Regulations approved by the Council of Ministers are all published in the Official Gazette (Negarit Gazeta). However, directives that are approved by the Ministries, Agencies and various state Governments are not publicized in any formal way except in few cases where the relevant agency maintains websites. Other than these, circulars and guidelines issued by government agencies on administrative procedures are printed as hard copies by the relevant institutions or departments. This practice; however, has impediment to availability and accessibility of regulations and procedures.

In addition to the above observations, the study further shows that ERCA publishes a general tariff book with preferential tariff rates and taxes, relevant laws, regulations, and procedures on its websites.

Tilahun (2014) also discusses the need for availability of enquiry points and consultation regarding trade related regulations and procedures. Regarding availability of enquiry points, the study discloses that ERCA has consultation department that provides information on customs issues relating to importation and exportation while other border agencies (government regulatory bodies) do not have. Regarding consultation of all stakeholders, including both local and international stakeholders, on amendment of existing regulations and introducing new measures, the research finding discloses that Ethiopia does not have a well established consultation mechanism that provide the opportunity for stakeholders to comment before any new laws and regulations are introduced or before changes are made.

Article 8 of the WTO Trade Facilitation Agreement (TFA) requires members to ensure that their authorities and agencies responsible for border controls and procedures dealing with the importation, exportation, and transit of goods cooperate with one another and coordinate their activities in order to facilitate trade. This includes establishing a mechanism of single-window service at each border control posts. Regarding proper coordination among the different government regulatory bodies, this study shows that, although ERCA, Ministry of Finance and Ministry of Trade cooperate effectively, cooperation between other agencies is not standardized and well regulated.

Finally, Tilahun (2014) concludes his study by underscoring the incompatibility of ERCA"s customs valuation practice with the WCO customs valuation procedures. Tilahun mentioned that the current practice of customs valuation in Ethiopia demonstrates that the WCO valuation methods are not fully incorporated in legislative guidelines. However, it should be noted that Tilahun conducted his research while the currently in force Customs Proclamation No. 859/2014 was at a draft stage. In this regard, I would argue that the problem does not lie on the guiding legislation (proclamation); instead it is on the Directives, Operation Manuals and on the actual implementation of the valuation process. It should also be worth noting that the current Proclamation was enacted with the view to help foreign trade facilitation through

compliance to international and regional customs standards. This proclamation stipulates six hierarchical alternative customs valuation procedures. As mentioned earlier, the above reviewed research was conducted earlier than the issuance of Proclamation No. 859/214 and did not test the outcome of the new proclamation.

Although the above researches have been conducted on Ethiopian Revenue and Customs Authority, the research findings do not show the main reasons for customs clearance delays and the corresponding challenges this delay poses on international trade facilitation. Based on the above reviewed empirical researches findings, the author of this research explores main causes of the prevailing customs clearance delay and the corresponding challenge on trade facilitation.. This research also examines the effect of the new customs proclamation on customs clearance processes.

CHAPTER THREE

3. RESEARCH DESIGN

The purpose of this Chapter is to present the research design and the method employed to undertake the actual research work.

Research design is the main plan that guides on how to approach a specific research topic, and there is no as such one right way of conducting a research. Research design may depend on a number of factors; such as research topic, audience of the research, availability of time and other resources, availability and access to information, etc.

With due consideration to the above statement, the design of this research is discussed briefly under this chapter. The structure of this Chapter is as follows: 3.1 presents the different theories on research methodology (qualitative, quantitative and mixed research) briefly; 3.2 discusses the research method employed and data collection techniques used; 3.3 talks about targeted population and sample size; 3.4 discusses the data analysis technique; and finally 3.5 discusses the reliability of the data.

3.1 Theory of Research Methods

According to Crotty (1998), the starting point in developing a research proposal is to identify the methods that will be used in the research project and then to justify their selection.

In research theory, researchers are presumed to have two extremely contradicting inquiry paradigms: positivism and constructivism. Accordingly, positivist researchers adopt quantitative research methods while constructivist researchers adopt qualitative research methods. There is a third paradigm which is a combination of positivism and constructivism and commonly known as mixed research method.

For this reason and depending on the appropriateness of the method to the intended research, contemporary academic researchers employ any one of the three research methods.

Crotty also suggests that in designing a research proposal, one should consider what epistemology (theory of knowledge) embedded in the theoretical perspective, what theoretical perspective (philosophical stance) lies behind the methodology in question, what methodology (strategy or plan) of action that links methods to outcomes, and what methods (techniques and procedures) does the researcher propose to use. Accordingly, the research method adopted has been discussed below.

3.2 Research Method and Data Collection Technique Adopted

Research methods are specific techniques of data collection and analysis used to achieve the broad research objective through addressing the specific objectives of the study. In order to achieve the objectives of this study, the researcher has used both qualitative and quantitative (mixed) research methods concurrently. Generally, both quantitative and qualitative research approaches employ interview, group discussion, survey, document review and questionnaire as data collection techniques. Interview is an important data collection technique involving verbal communication between the researcher and the interviewee. There are a number of approaches to interviewing; from completely unstructured in which the interviewee is allowed to talk freely, to highly structured, in which the interviewee responses are limited to only answering direct questions, (Nigel et al. 1998).

Semi-structured interviews involve a series of open-ended questions based on the topic the researcher wants to cover. The open-ended nature of the question provides opportunities for both interviewer and interviewee to discuss some topics in more detail with a controlled scope. If the interviewee has difficulty of answering a question or provides a brief response, the interviewer can use cues or prompts to encourage the interviewee to consider the question further. In semi-structured interview, the interviewer also has the freedom to probe the interviewee to elaborate on the original response. Generally, semi-structured interviews give respondents reasonable freedom to express their views, opinions and experiences on the one hand, and to minimize the burden of the researcher to compile and interpret the result on the other hand. Comparatively, using structured interview does not entertain views and opinions which are essential for exploratory type of research, while unstructured interview poses huge burden on the researcher and consume more time to compile the data, analyze and interpret.

For reasons of the above, the researcher has selected semi structured interview for the qualitative data collection, and questionnaire for the quantitative data collection. The questionnaire will help to cover larger target groups than the interview, given the quality and chance of no response. The questionnaire has three parts, the first part explains the purpose of the questionnaire; the second part comprises of profile of respondents while the third part comprises of actual questions of the research. The questionnaire is prepared using Likert-Scale approach (i.e., from "Agree" to "Disagree", "yes" and "no", as well as multiple choices with multiple response and open-ended questions. In this regard, Creswell (2007) noted that open-ended questionnaires are appropriate when the objective is to discover opinions, attitudes. Nardi (2003) also noted that the specific measurement scales that comprised the questionnaire are simple category scale, multiple-choice single-response as well as multiple choice and multiple-response scales.

In order to encourage respondents and maximize the chances of obtaining adequate responses, the length of the questionnaire was taken into consideration. The questionnaire was tested by preliminary survey (contacting with some customs officers and clearing agents for clarity, ease of use, and value of the information that could be gathered).

Accordingly, respondents were asked to indicate their level of agreement on a three point Likert scale with the following ratings. Agree (3), neutral (2), and disagree (1). The numbers were indicated in the questionnaires to provide a feel of ordinal scale measurement and to generate data suitable for quantitative analysis. According to Hole (2011) the permissible descriptive statistics that can perform on ordinal data is median or average response and mode or more frequent responses. To elicit additional information, the respondents were also requested to provide open-ended responses if they have opinions which they feel would strengthen their responses.

A pilot survey was conducted in order to ascertain if the questionnaire adequately addressed the critical aspects of the research objective. Immediately following the first discussion, few questions were split into two in order to avoid ambiguity, particularly in the Likerte scale part, before it was distributed to respondents.

With this method, the researcher has been convinced that the use of semi-structured interviews and questionnaires will help to best understand the problem and to achieve the research objective.

3.3 Sample Size

It is common practice in research work to use sample in order to generalize about the targeted populations. The size of sample and the technique used to draw sample from the population; however, depends on the availability of time, money, personnel and information. According to Alreck and Settle (1995) the choice of sample size is normally made after considering statistical precision, practical issues and availability of resources. On the other hand, Tabachnick and Fidell (2001) noted that samples are selected on a random basis and those samples are considered as representative of the population. A different sampling paradigm by Lowler (1984) noted that there is no a single precise way for the determinations of sample size hence there are a number of inadequacy for deciding on sample size.

The target populations of this study are ERCA customs officers at Head Quarter, Bole International Airport Cargo Terminal, Kality Multi-Modal customs stations, Importers and customs clearing agents. Samples are taken from these populations. The sample from ERCA employees is taken using simple random sampling while from importers and clearing agents is taken using cluster sampling technique. The reason for using two sampling techniques is that ERCA customs officers could be available in the selected locations while the importers and clearing agents are located in different places of the city.

Table 3.1: ERCA Employees

Category	Customs Stations			Total
	ERCA HQ	Bole Cargo	Kality	
RECA Employees	85	478	364	927

Source: *ERCA Human Resource Directorate 2015*

The above figure represents only the Customs Directorate employees (only customs officers at various levels) of the Ethiopian revenue and Customs Authority.

According to a data collected in May 2015 from the Ministry of Trade and Industry, there are 36,921 registered importers and these are classified in to eight major import categories and are located in different parts of the city. Due to high dispersion of importers, and the related logistical, financial and time constraints to collect data, only the following major importer categories are covered in this study:

Table 3.2: Importers and Customs Clearing Agents

Importers (Company):	-	-	-	-	
✓ Automotive and spare parts					6,411
✓ Machineries and tools					6,441
✓ Electronics and other goods					58
Total Importers					12,910
Clearing Agents	-	-	-	-	550
Total Population					**13,460**

Source: *Ministry of Trade and Industry 2015*

From the above population size, seventy five ERCA employees, fifty five customs clearing agents and fifteen importers from all categories have been selected for interview and questionnaire. The above three importer groups out of the total eight groups are selected based on the capital intensity of the business nature and diversity of products. The reason the sample size of customs clearing agents is high compared to importers is that customs clearing agents have better customs clearance knowledge than importers since most importer do not have their own customs clearing officers and use licensed customs clearing agents. Generally, the above sample size is determined by taking in to consideration the researcher"s time, budget, and the highly scattered nature of major importers location. Of these samples, semi-structured interview has been administered to ten customs officers (two from ERCA HQ, four from Bole Cargo Terminal and four from Kality customs station), two importers from each category and five customs clearing agents. Questionnaires have been distributed to all sample group. The researcher is convinced that the above number of sample size is good enough to be representative of the population under each target group.

3.4. Data Analysis Methods

Since this study is descriptive type of research, the collected data was analyzed by using frequency and percentage of respondents. To show and rank the respondents‟ responses tables, graphs and charts are used. As, Greener (2008) stated, in most types of research studies, the process of data analysis involves the following three steps: first preparing the data for analysis, then analyzing the data and finally, interpreting the data. Based on these steps, content analysis of data involved presenting data or respondent‟s responses in table form or chart forms then data were analyzed using frequency and percentage. Then the data from open-ended questions in the questionnaire and from the interview were analyzed and discussed qualitatively. Finally, the analyzed data were interpreted into results.

Since this study constitutes numeric data (ordinal data) that was collected via questionnaire, a descriptive data analysis method were used in order to describe and analyze the collected data. Further, as the collected data has an ordinal scale of measurement, measured on 1 up to 3 point basis and contain a close-ended type questions coded as 1 for “Yes” and 0 for “No”, it was captured onto a statistical package of SPSS just to support the data presentation. As part of descriptive method, tables, graphs and charts are employed to clearly represent and interpret the results and findings of the study.

3.5 Reliability and Validity of the Study

Reliability is concerned with the question of whether or not a result is stable (Bryman and Bell, 2007). The idea of reliability is important for measuring the research method explained throughout this research. The sample selection was based upon simple random sampling and cluster sampling. The respondents were free to answer the questionnaire without stress, which would have negative effects upon the reliability of this study. Thus, this study is believed to have produced consistent results.

On the other hand, validity is concerned with the integrity of the conclusions that are generated from a research (Bryman and Bell, 2007). The process of preliminary discussion and sending out pilot questionnaire to ensure understandability of the questionnaire strengthens the validity of the result. In addition, the empirical data analyzed with SPSS for windows, which is possibly the most widely used computer software for the analysis of quantitative data, proves the validity of the result. Therefore, this research can be safely said to be highly valid.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

This chapter is dedicated for data presentation, analysis and interpretation which were collected from all respondents through questionnaires and interview. Finally, major findings of the study have been summarized at the end of this chapter.

As indicated in 1.3 of chapter one, the objective of this study is to identify challenges and prospects of customs clearance of import business in ERCA. For this purpose, the researcher prepares and distributes close-ended and open-ended questionnaires to the Ethiopian Revenue and Customs Authority Customs Directorate employees on the one hand, and importers and customs clearing agents, on the other hand. The purpose of distributing open-ended questions was to provide more room to respondents to express their perspective of challenges of import customs clearance which are not addressed in the close-ended questions. Hence, analysis of the findings is made based on the response of these two groups. In addition to the questionnaire, the researcher has administered interview questions to selected customs official, and importers/customs clearing agents in order to obtain detail information about the challenges of import customs clearance which could not be captured through questionnaire. The response of customs officers and importers/customs clearing agents has been analyzed concurrently in relation to the research question and finally summarized. The data collected from both groups of respondents has been processed using SPSS software.

4.1 Questionnaire Response Rate

Seventy five questionnaires were distributed to randomly selected customs officers working at various levels at ERCA headquarter, Bole Cargo Terminal and Kality Multi-modal customs station. As it can be seen in Table 4.1 below, sixty questionnaires (80%) have been responded and returned while the remaining fifteen questionnaires (20%) have not been responded. Similarly, seventy questionnaires were distributed to selected importers/customs clearing agents. Of these, only forty eight questionnaires (69%) have been responded properly while the remaining twenty two questionnaires (31%) have not been responded or have not been filled properly. The author of this research is convinced that the observed response rate is

sufficient enough to generalize about the population and this does not affect the reliability of the research result.

Table 4.1: Questionnaire Response Rate

Particulars	Customs Officers		Importers/Clearing Agents	
	Count	Percentage	Count	Percentage
Questionnaire Responded	60	80%	48	69%
Questionnaire not Responded	15	20%	22	31%
Total	75	100%	70	100%

Source: *Own Computation*

4.2 Respondents Profile

The respondents‟ personal profile has been analyzed by educational level, work experience and relevant training on ERCA regulations, procedures and tools. The objective of this analysis is to assess customs officers‟ and importers/customs clearing agents‟ competence to understand and implements regulations and procedures.

4.2.1 Customs Officers Education Level:

Table 4.2 below shows that, the majority (86.4%) of customs officers who completed the questionnaire have first Degree, while the remaining 5.1% and 8.5% have Diploma and second Degree, respectively. This level of academic status enables customs officers to understand regulation and procedures, and to operate various software of the tax administration. However, the efficiency of employees to expedite customs clearance at various level depends on the provision of work related trainings and availability of conducive working environment.

4.2.2 Customs Officers Work Experience:

As it can be seen from Table 4.2 below, more than three-fourth of customs officers (79.7%) have work experience which ranges from less than one to ten years. Looking at this category in more detail, 39% have between six to ten years, 30.5% between one to five years and the remaining 10.2% have less than one year of work experience. On the higher side, 15.3% have between 11 and 15 years of service while only 5.1% have more than 15 years of work experience. Compared to the years lapsed since ERCA has been reorganized in 2008, on average, the work experience of ERCA employees can also be considered sufficient to learn

the system and become proficient but still this depends on provision of work related training and availability of conducive working environment.

4.2.3 Relevant Training:

Only academic education may not bring employees to become proficient on their job though it reduces the learning curve to get used to any system. Therefore, job related training is important to every employee. Regarding provision of work related training, the result of the survey reveals 59.3% of respondents have received while the remaining 40.7% have not received work related training. This result tells that significant number of employees do not have relevant training to their respective job. According to Tilahun (2014), implementation of reforms in trade procedures and trade regulations require training of people and establishment of systems of checks and balance. Since job related trainings are tailor made and job focused, those employees who did not receive such kind of training may not be efficient in their day to day performance of the job.

Table 4.2: Profile of Customs Officers*:*

Education			**Work Experience**			**Relevant Training Recei**		
Level	**Count**	**Percent**	**Service Year**	**Count**	**Percent**	**Received**	**Count**	**Percent**
			Below 1 year	6	10.2%			
Masters	5	8.5%	1 to 5 years	18	30.5%	Yes	35	59.3%
BA/BSC	51	86.4%	6 – 10 years	23	39%	No	24	40.7%
Diploma	3	5.1%	11 - 15 years	9	15.3%			
			Above 15 years	3	5.1%			
Total	**59**	**100%**	**Total**	**59**	**100%**	**Total**	**59**	**100%**

Source: *SPSS Data Analysis Output, 2015*

4.2.4 Importers/Customs Clearing Agents Education Level:

Table 4.3 below shows that among importer/customs clearing agents who completed the questionnaire, 91.7% have first Degree, while the remaining 8.3% have Diploma. This result implies that importers/customs clearing agents have adequate academic level to read, interpret

and implement customs regulations and procedures to the required level depending on availability and accessibility of those regulations and procedures.

4.2.5 Importers/Customs Clearing Agents Work Experience:

As can been seen in Table 4.3 below, the majority (85.4%) of respondents have six to ten years of experience while the remaining 6.3% and 8.3% have eleven to fifteen years and above fifteen years of experience, respectively. Compared to customs officers work experience, importers/customs clearing agents have longer experience in customs clearance, freight forwarding and transit field. Still depending on other factors, this implies that customs clearing agents are presumed to have very good understanding of the customs procedures.

4.2.6 Relevant Training:

The data analysis below shows that 58.3% of respondents have received relevant training on customs procedures. The remaining 41.7% did not receive relevant training on customs procedures. Customs clearing agents need to have adequate knowledge on how to fill customs declaration forms, what types of commercial documents are required and others. In order to create efficient and expeditious customs clearance system, provision of relevant training to customs clearing agents is an important factor.

Table 4.3: Profile of Importers/Customs Clearing Agents:

Education			**Work Experience**			**Relevant Training Receive**		
Level	**Count**	**Percent**	**Service Year**	**Count**	**Percent**	**Received**	**Count**	**Percen**
BA/BSC	44	91.7%	5 – 10 years	41	85.4%			
Diploma	4	8.3%	11 - 15 years	3	6.3%	Yes	28	58.3%
			Above 15 years	4	8.3%	No	20	41.7%
Total	**48**	**100%**	**Total**	**48**	**100%**	**Total**	**48**	**100%**

Source: *SPSS Data Analysis Output, 2015*

4.3 Efficient Customs Clearance and Trade Facilitation Indicators

Table 4.4 and 4.5 below are dedicated for analysis of customs officers and importers/customs clearing agents‟ response to efficient customs clearing and trade facilitation related questions.

4.3.1 Analysis of Customs Officers Response: Customs officers were asked to respond to the Likert Scale type question by putting tick mark in the space provided as „Agree", „Neutral", and „Disagree". Detail analysis is as follows:

4.3.1.1 Availability of Appropriate Regulations and Procedures, and Its Understandability:

According to Tilahun (2014), implementation of the principles provided in the WTO Customs Valuation Agreement in Ethiopia, with or without accession to the WTO, is timely and called for since this is a step forward to align the country"s trade practice to globally harmonized rules. Although his research was based on the repealed Proclamation No. 622/2009, despite Ethiopian customs legislation being generally in line with the WTO customs valuation framework, the Proclamation suffers from several consistency challenges against its WTO counterpart.

As can be seen in Table 4.4 below, the majority (68.3%) of respondents agreed on the availability of customs regulations and procedures, and 21.7% disagreed while the remaining 10% of the respondents are neutral. Availability of clear, understandable, transparent, and easily accessible customs regulations and procedures is also one of the indicators of efficient customs administration. Regarding transparency, 53.3% of respondents agreed that it is transparent, 25% disagreed and the remaining 21.7% found to be neutral. In this case, being neutral may mean respondents cannot comment if they do not have adequate knowledge of the regulation though they recognize its availability. Based on this result, it is possible to conclude there are written customs regulations, directive and procedure manuals. However, with its constraints, those regulations and directives are not fully implemented on the ground as they are stipulated on paper. This result is consistent with Tewoldebirhan (2011). According to Tewoldebirhan, customs valuation procedures are not implemented as they are on the paper and consistently. Different customs officers treat similar cases differently. Customs officers are the ones who deal with customs regulations and procedures, and are supposed to understand the bolts and nuts of those documents. As the survey result exhibits, about 46.7% of customs officers either do not have good understanding of the regulation or, are not sure whether they have good understanding of the regulation. Lack of understandability and transparency of regulations opens loopholes for bureaucratic and

corrupt practices. Based on this, it is possible to argue that lack of good understanding of regulations and procedures could be a good cause of customs clearance delay.

4.3.1.2 Coordination among Regulatory Bodies and Availability of Single-Window Service:

A number of government entities have stake on the movement of border crossing goods and are granted the authority to give license and certification for customs purpose. Coordination among these government regulatory bodies and existence of single window service is another indicator of efficient customs system. According to Tilahun (2014) there is effective coordination among ERCA, Ministry of Finance and Economic Development (MoFED) and Ministry of Trade and Industry (MoTI). However, there is no standardized coordination with other regulatory authorities which involves six Ministries and more than ten statutory bodies in the importation and exportation processes. The data analysis below shows that there is lack of cooperation among the different regulatory authorities in terms of facilitating import – export trade.

According to Tsegaye and Endris (2011), the total number of days required to prepare (collect) the necessary import clearance documents from the different regulatory bodies, without considering the to-and-fro of applicants, is more than eight days. This is by far better than the World Bank estimate of 25 days. This happens because of lack of proper coordination among those regulatory bodies.

Customs officers were asked if there is single-window service related to customs procedures. 100% of respondents answered this question as there is not single-window service at all. The result of the survey is exactly in conformity with the finding of Tilahun (2014). This implies that obtaining government regulatory body license and certification is so cumbersome, expensive and time consuming. Similarly, customs officers were asked whether there is cooperation among regulatory bodies. The survey result shows 65% agreed that there is cooperation while more than one-third of customs officers recognized the difficulty of obtaining regulatory bodies‟ license and certificate. Lack of cooperation among regulatory bodies require importers/customs clearing agents to go door to door to each offices and this creates duplication of effort and leads to extra cost. According to Tsegaye and Endris (2011), such duplication is cumbersome and excessively costly in terms of time, opportunity cost,

money, and the number of documents involved for any exporter and importer. This duplication of effort not only delays the customs clearance time but also increases cost of imported goods.

4.3.1.3 Availability of Electronic Data Exchange:

According to Zake (2011) full automation of transactions processing and management information support is one of the manifestation of modern customs system. Regarding this topic, Tilahun (2014), shows that there is no efficient electronic exchange of information between ERCA offices in Addis Ababa and satellite offices at border posts. The result in Table 4.4 shows most respondents (95%) agreed that there is electronic data exchange practice within ERCA. Currently, ERCA uses ASYCUDA++, CD, Face Vet, Valuation Detail Declaration (VDD), Ethiopian Customs Valuation System (ECVS) and Harmonized System for various customs purposes. Though the efficiency of electronic information exchange is still a concern, the survey result disproves earlier research finding. However, it should be noted that mere availability of electronic data exchange cannot eliminate customs clearance delay. The use of electronic data exchange requires maintaining up-to-date data in the system and reliable infrastructure such as strong network and standby source of power. In this case, network and power interruption remained hurdles of modernization. In addition, availability of well trained labor force matters on efficient use of those tools. In relation to challenges of efficient use of information technology, Tilahun (2014) highlights that one of the challenges for Ethiopia will be the ability to make information available electronically and in a sustainable manner given limited connectivity, electric power interruptions and the limited availability of skilled manpower in the field. As can be seen in Table 4.2 above, 40.7% of customs officers have never received relevant training in any form. This would mean that the flow of each element of customs clearance work which requires the use of electronic data transfer such as document verification, customs valuation, tariff classification and release of goods can be delayed in average by the same percent.

Semi structured interview questions were also administered to customs officers regarding availability of clear and understandable customs clearance regulations and procedures. Customs officers were also asked whether existing regulations and procedures are compatible to WCO and COMESA conventions and trade facilitation indicators. The response was that

ERCA focuses on controlling while WCO and COMESA conventions focuses on trade facilitation and quick release of goods at customs stations. ERCA entertains the COMESA convention only for tariff classification of goods imported from member states. The tariff for goods from COMESA member state is lower than the international import tariff because of the preferential trade agreement. But, the WCO conventions are mostly modified to the national context. In addition to the above, continuous amendment of regulations and procedures through internal memo/circular makes understandability of customs procedures difficult. Importers/customs clearing agents complain because they often come across with new procedures from what they knew. This happens because of amendments on and additions to the main guiding document, customs directive. The use of CD for valuation of imported goods and tariff classification are also sources of importers/customs clearing agents‟ complaints. The reason importers/customs clearing agents complain on the use of CD is because this data source does not carry updated price list of goods. The reason tariff classification is a source of complaint is because customs officers tend to put goods on a higher tariff to minimize personal risk of using lower tariff than should have been.

Table 4.4: Customs Officers Response to Efficient Customs Clearance Process and Trade Facilitation Indicators

Indicators	Customs Officers' Response in %			
	Disagree	Neutral	Agree	Total
There are clear rules & procedures regarding classification and valuation of imported goods	21.7	10.0	68.3	100
Rules and procedures are understandable and easily accessible:	26.7	5.0	68.3	100
Transparent and efficient appeal procedure are available	25.0	21.7	53.3	100
There is co-operation between ERCA and other regulatory government Ministries and Agencies	30.0	5.0	65.0	100
There is single-window service at all customs stations	100	-	-	100
ERCA uses electronic data transfer tools	5.0		95.0	100
The use of electronic data exchange systems helped to reduce complexity and cost of customs declaration and clearing process	10.0	-	90.0	100
The use of electronic data exchange system take place in an efficient, transparent, and predictable manner	10.0	10.0	80.0	100
Publication of trade information, customs procedures and enquiry points are available and easily accessible.	30.0	16.7	53.3	100
ERCA involves and consults the trading community regarding newly evolving customs procedures	40.0	15.0	45.0	100
Importers and customs clearing agents are willing and honest to comply with the rules and procedures	75.0	5.0	20.0	100
ERCA lack the commitment and capacity to enforce national legislations and other conventions.	20.4	24.1	55.6	100

Source: *SPSS Data Analysis Output, 2015*

4.3.2 Analysis of Importers/Customs Clearing Agents Response:

Importers/customs clearing agents were also asked similar questions to customs officers. The purpose of asking both parties similar question was to obtain the perspective of the two major actors of customs process.

4.3.2.1 Availability of Appropriate Regulations and Procedures and Its Understandability:

Regarding availability of clear customs regulation and procedures Table 4.5 below shows 50% of respondents agreed on availability of customs regulations and procedures, 33% did not agree while 16.7% remained neutral. Regarding understandability and transparency of those regulations and procedures, 41.7% of respondents agreed while the same percent (41.7%) of respondents did not agree. Although most importers/clearing agents have first

degree level education and are presumed to understand written documents, the response invites itself for subjectivity.

4.3.2.2 Cooperation among Regulatory Bodies and Availability of Single-Window Service:

As can be seen in Table 4.5 below, 41.7% of respondents agreed there is cooperation among the different government regulatory bodies of customs procedures while the same percentage (41.7%) of respondents disagreed. But when importers/clearing agents were asked whether there is single-window service at customs stations, 100% of respondents answer was no. As it has been mentioned under 4.3.1.2 above, absence of single-window service and lack of cooperation among customs regulatory bodies is expensive and time consuming; meaning contributes for customs clearance delay.

4.3.2.3 Availability of Electronic Data Exchange:

The data output regarding the use of electronic data exchanger tools shows, majority (58.3%) of the respondents agreed that ERCA uses electronic data exchange tools for lodgment of customs declaration, tariff classification, document verification and customs valuation purposes and 16.7% disagreed while 25% were neutral. The question is, as mentioned under 4.3.1.3 above, does the infrastructure allow using those tools efficiently and are all users well trained on how to operate. As can be seen in Table 4.3 above, 41.7% importer/customs clearing agents have never received relevant training in any form. This affects efficient and expedient use of available electronic data exchange tools, which ultimately leads to customs clearance delay.

4.3.2.4 Consultation and Training:

Consultation with and continuous awareness creations to all stakeholders on customs regulations and procedures encourages voluntary compliance and improves trade facilitation efforts. According to Tewoldebirhan (2011), revenue authorities of the East Africa Community have made taxpayers consultation an important part of their approach to achieve voluntary compliance.

According to Tilahun (2014), although changes have recently been introduced with the support of International Financial Corporation (IFC), Ethiopia does not have a well established mechanism for effective consultations. Despite the fact that it is at its infant stage, the Ethiopian Chamber of Commerce and Sectoral Association has established the so called Ethiopian Public Private Consultative Forum (EPPCF) with the view to minimize the gap between the tax authority and other stakeholders on trade related regulations and procedures. Tilahun mentioned that consultations on various customs related issues have taken place prior to the introduction of new laws, giving stakeholders an opportunity to contribute to, influence, and comment on proposed changes to either existing or new laws and regulations before entry into force. Accordingly, importers and customs clearing agents‟ response regarding availability of proper consultation and awareness creation forum reveals 50% of the total respondents did not agree, 8.3% were neutral and the remaining 41.7% agreed ERCA involves and consults stakeholders on newly evolving regulations. However, it was not clearly defined whether such forums were organized by the customs authority or, as mentioned above, by the Chamber of Commerce and Sectoral Association. Who so ever takes the lead on this, the survey result does not show existence of effective and standardized consultation forum. To a certain extent, this result is consistent with previous research findings. Mere publication of well articulated regulation may not mean implementation of the same would be easy. It requires intensive consultation with all stakeholders before entry into force of proposed changes to either existing or newly emerging laws and regulations and familiarization training before and during implementation. As it has been discussed above, majority of customs officers and importers/customs clearing agents agreed there are customs regulations and procedures. However, ERCA does not seem strongly committed to take a lead in addressing the gap that exists between the customs authority and other stakeholders regarding trade related regulations and procedures. This could be a source of low level of compliance rate which ultimately results in customs clearance delay.

Similarly, importers/customs clearing agents were asked regarding customs officers‟ work related knowledge and skill on how to apply procedures and use available tools. 58.3% of respondents did not agree they have the prerequisite work related skill and knowledge, 25% were neutral and 16.7% agreed customs officers have the skill and knowledge. This survey result also confirms with Tewoldebirhan (2011). According to Tewoldebirhan, ERCA

employees do not treat customs declarations consistently and according to the customs manual due to inadequate knowledge of the regulation and unhealthy relationship with importers/customs clearing agents. According to this study, however, unhealthy or corrupt practice is not identified as a major concern of customs clearance process. Possible existence of corrupt practice at customs stations level was one of the talking points during the interview sessions with both customs officers and importers/customs clearing agents. If corruption exists, it exists at a policy making level not at operational level. Although it is not hundred percent clean, customs officers do not have the courage to risk their job and carrier since electronic and human intelligence at customs stations is very tight and the punitive measures are so harsh.

The overall result indicates that ERCA has not worked on human development corresponding to the development of rules and regulations. If customs officers do not have adequate work related skill and knowledge, they lack the confidence to make appropriate decision and tend to push routine tasks up to a higher level. Similarly, if customs clearing agents do not have adequate work related skill and knowledge on how to fill out declaration forms, cannot identify required commercial documents for customs purpose, etc the probability of filling declaration forms wrongly and submitting incomplete documents would be highly likely. The overall outcome of this is customs clearance delay.

4.3.2.5 Customs Valuation and Tariff Classification:

Customs valuation and tariff classification are of great concern to traders, as non-transparent valuation and classification mechanisms typically combined with inefficient or even absent advance ruling mechanisms lead to uncertainties regarding the profitability of each trade transactions (Tilahun 2014). Customs valuation and tariff classification are key elements of international trade. According to Tilahun, although the proactive strategy adopted by ERCA has helped in introducing several policy measures which has helped the economy in major way without compromising the collection of essential government revenue, customs valuation has remained an issue of particular concern of the tax authority.

Regarding determination of duty paying value, Customs Proclamation No. 859/2014 stipulates six hierarchical methods, being total transaction value of goods the primary option

as long as it satisfies related stipulations, which is consistent with the WTO customs valuation framework. Although it was prepared based on the repealed Proclamation No 622/2009, ERCA has also issued Directive 94/2006 (EC) regarding determination of duty paying value of imported goods. However, this Directive grants customs officers the discretion to reject transaction/invoice value as a basis for valuation. One of the deficiencies of this Directive is that it allows customs officers to use price database maintained by the customs authority, commonly known as CD, as a reference to accept or reject invoice value. This CD is not updated on a regular basis to reflect the prevailing price of goods in international market.

Similarly, regarding tariff classification, Article 102 Sub Article 3 of the same proclamation stipulates that documents prepared by the World Customs Organization in relation to classification of goods shall be taken as conclusive evidence. As mentioned earlier in Chapter One, currently ERCA is using the Harmonized Commodity Description and Coding System, commonly known as the Harmonized System (HS) for tariff classification. It is a multipurpose international product nomenclature developed by the World Customs Organization (WCO).

Importers/customs clearing agents were asked regarding valuation and tariff classification of imported goods. Accordingly, Table 4.5 reveals most (75%) of respondents agreed that goods are often over valued and classified to a higher tariff rate while 16.7% of respondents disagreed and 8.3% remained neutral. In the work flow of customs procedures, valuation is considered as one of the most critical work element because, customs duties and other taxes are calculated and paid based on customs value of goods. Valuation problem may not affect only the amount of duties and taxes payable but also the time required to complete clearance process. In other words, it would result in unnecessary delay of customs clearance. One of the reasons for valuation problem could be lack of confidence to put correct value and tariff which also emanates from lack of work related knowledge. Detail interview results related to the problem on customs valuation and tariff classification has been discussed below.

Table 4.5: Importers and Customs Clearing Agents Response to Efficient Customs Clearance Process and Trade Facilitation Indicators

Indicators	Importer/Clearing Agents' Response in %			
	Agree	**Neutral**	**Disagree**	**Total**
There are clear rules & procedures regarding classification andvaluation methods of imported goods.	33.3	16.7	50.0	100
ERCA rules and procedures are understandable and easily accessible	41.7	16.7	41.7	100
There is transparent and efficient appeal procedure at all levels regarding valuation complaints	41.7	16.7	41.7	100
There is co-operation between ERCA and other government regulatory authorities for certification and release of imported goods	41.7	16.7	41.7	100
There is single-window service at all customs stations	100	-	-	100
ERCA uses electronic exchange of data (ASYCUDA, ECVS and VDD) for customs declaration and valuation	16.7	25.0	58.3	100
The use of electronic exchange data has helped to reduce the complexity and cost of customs clearing process	16.7	25.0	58.3	100
ERCA involves and consults trading community regarding newly evolving customs procedures periodically	50.0	8.3	41.7	100
Customs officers at all level are well trained on customs procedures to expedite customs clearing processes	58.3	25.0	16.7	100
Goods are often overvalued and classified to a higher tariff rate by customs officers and importers are compelled to pay higher tax	16.7	8.3	75.0	100
ERCA lack the commitment and capacity to enforce national legislations and other conventions in order to establish modern customs legal framework.	9.1	36.4	54.5	100

Source: *SPSS Data Analysis Output, 2015*

Interview questions were also administered to customs clearing agents related to the above indicators. Regarding availability of clear customs procedures and its accessibility some respondents answered this question very clearly. These respondents mentioned that until 2014, ERCA had been using Directive No. 70/2004 (EC) for imported goods customs valuation as well as for duty and tax determination purposes. This directive was prepared based on the already repealed proclamation No. 622/09. This Directive has been overridden by Directive No. 94/2006 (EC) which was also prepared based on the same proclamation. Of course, both the proclamation and the directive are available to the public on ERCA‟s

website. However, the directive grants unbalanced discretion for customs officers to reject importers/customs clearing agents‟ declarations for a number of excuses. Customs officers often use those excuses for their decision to reject customs clearing agents‟ declarations and reclassify goods to a higher tariff rate classification. This happens for two reasons: the first reason is customs officer do not have adequate knowledge of customs regulations as a result lack confidence on their job, and the second reason is because customs officers do not have the courage to take the risk of losing their jobs through a political motivated peer evaluation (the so called „one-to-five setup‟ of customs officers). This setup has the authority to null individual customs officers‟ decision. The tone of this argument is that controlling and collection of higher revenue is given more weight than trade facilitation. For this reason, customs clearing agents found the actual customs clearance process on the ground a very cumbersome, time consuming and unpredictable process, and this is mainly attributable to customs valuation and tariff classification problem.

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

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

When customs clearing agents were asked regarding ERCA‟s capacity and commitment to enforce national legislations and other customs conventions, the response was that valuation and classification of imported goods is always done in favor of the government, that is, goods are classified to the next higher tariff rate than should have been. Because, customs officers do not have full confidence on their knowledge of the customs procedure and both undervaluation and under classification pose more risk on their job security than over

valuation and over classification. Another response to the above question reveals that WCO and COMESA conventions which Ethiopia is a signatory are not fully implemented due to the country‟s level of development and absence of infrastructure. According to this response, implementation of those conventions requires significant time and resource. In addition to this, full implementation of the national legislation and other customs conventions requires significant level of trust between the tax administration and the business community. Currently, ERCA does not have the required level of trust on importers and clearing agents. As a result of this, the possibility of overriding those regulations is very high.

Customs clearing agents were also asked regarding the use of electronic data exchange tools in ERCA. The response shows that ERCA uses ASYCUDA++, Harmonized System, Ethiopian Customs Valuation System (ECVS), Face Vet, and Value Detail Declaration (VDD) for a number of purposes. This includes international price comparator database of goods. According to this response, „transaction value‟ method is not used for most imported goods valuations. The main reason for this to happen is lack of trust between the tax administration and importers, which supports the previous response regarding implementation of national legislation and other customs conventions.

Another question forwarded to customs clearing agents was regarding the predictability and transparency of the customs clearance process. Among other factors, the type of consignment (heterogeneity) highly affects predictability. Homogenous consignment is relatively simple for valuation and classification, and is predictable than heterogeneous consignment. Import clearance of heterogeneous goods such as vehicles spare parts and electronics has been proved to be one of the problem areas because customs officers do not have knowledge of the myriads of types of parts. Proclamation 859/2014, Article 89 Sub Article (5), though not fully implemented yet, provides that the Authority (ERCA) shall organize a database which enables to determine the duties and taxes of imported goods based on the proclamation, where the duties and taxes cannot be determined based on transaction value. ERCA has recently introduced the Value Detail Declaration (VDD) and Ethiopian Customs Valuation System (ECVS) to organize such database but it is on infant stage. Regarding transparency, the answer of most respondents is a mix of „yes‟ and „no‟, while the answer of the remaining

respondents is straight „no". According to most respondents" remarks, there are a lot of factors affecting predictability and transparency of customs procedures. This includes:

- Customs officers lack of confidence to make decision,
- Absence of latest and regularly updated price comparator database. The current price database in the so called CD is outdated which does not reflect the current international market price.
- Network disruption either due to power outage or poor network infrastructure,
- Unannounced multiple meetings,
- Absence of demarcation between political and professional work.
- Absence of single-window customs clearance service,
- Complexity of customs clearing procedures.

Full fledge implementation of VDD and ECVS systems will replace the current and unpopular use of CD based database as a price comparator and will help to improve predictability and transparency of the process.

Availability of consultation of the trading community on customs regulations and procedures is another trade facilitation indicator. Consultation is steppingstone to mutual agreement and voluntary compliance while training provides the skill and tool to implement what has been agreed.

Another question forwarded to customs clearing agents was regarding support being extended through consultation and provision of trainings by the tax administration. ERCA is the certifying and licensing authority of customs clearing agents. It provides a two months training with certificate of successful completion of the training to customs clearing agents before it grants the license. Because of this, customs clearing agents are supposed to know all customs clearing regulations and procedures. Importers, unless they have their own trained and licensed customs clearing officer, they are obliged to outsource the customs clearing task to a licensed agent. However, customs clearing agents" employees, who do the clearing task on the ground, do not receive any training from the tax administration. With the current practice, it is only holders of customs clearing license who can attend trainings provided by

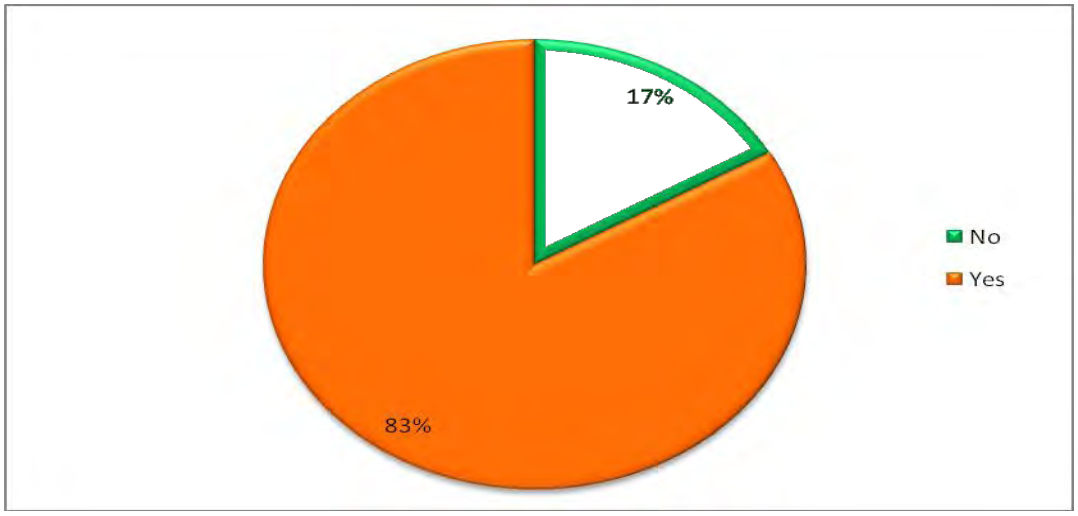
ERCA. This practice has its own contribution for low compliance to customs regulation and procedures.

Importers/customs clearing agents were also asked regarding the skill of customs officers on customs procedures. There is high staff turnover within ERCA. As a result of this customs officers in many customs stations are inexperienced and luck adequate skill and knowledge of customs procedures. As a result of this customs declarations lodged to customs office do not move forward as it should move.

4.4 Customs Clearance Delay

The whole idea of this paper revolves around challenges of customs clearance at customs stations. Although previous research findings have concluded that there is customs clearance delay, it was important to obtain first hand information from the main actors of the business on the efficiency of the system. Accordingly, Figure 4.1 below shows most (83%) of the respondents have confirmed there is customs clearance delay while the remaining 17% have replied there is no delay. The latter response is attributable to importers/customs clearing agents who are identified by the tax administration as Authorized Economic Operators (AEO). Authorized Economic Operators are firms who are authorized the use of simplified customs declaration and clearance procedures. This rate of response (83%) supports previous research conclusion of existence of customs clearance delay.

Figure 4.1: Importers/Customs Clearing Agents Response of Customs Clearance Delay:



Source: *SPSS Data Analysis Output, 2015*

4.5 Causes of Customs Clearance Delay

In order to identify main causes of customs clearance delay, different questions have been administered to customs officers and importers/customs clearing agents in different forms. This question includes an in-depth interview regarding the importance and complexity of the different customs clearance procedures. Although the degree of complexity varies, customs clearance procedure includes the following workflows sequentially: obtaining and compiling relevant documents, lodgment of declaration, physical inspection of goods, customs valuation, tariff classification and finally release of goods.

According to most respondents, all procedures are considered as critical path to the next step in which the next step could not take place before the fulfillment of the preceding step. However, regarding the complexity and time required to resolve issues, most respondents" response revolves around two procedures: *valuation* and *tariff classification*. As has been mentioned under 4.3.2.5 above, customs valuation and tariff classification have been identified as key elements of the overall customs clearance procedure. The interview result regarding the complexity of the different customs clearance procedures has been summarized as follows:

- ✓ **Obtaining and compiling relevant documents**: This step involves obtaining certifications and licenses from different regulatory bodies, and trading documents such as commercial invoices, bill of lading, packing list, etc from foreign supplier. Obtaining certificates and licenses from regulatory bodies, where there is no single-window service or standardized coordination among those bodies, is not easy. According to Tsegaye and Endris (2011), on average, this process requires more than eight days. However, collecting all relevant documents, in most cases, takes place before arrival of consignments at customs stations and does not hold the clearance process significantly. But, there are times where some trading documents from foreign suppliers could be missing. In that case, it requires significant time since it should be in original form. With the prevailing experience where pre-arrival clearance is not common, customs clearance process is presumed to have been started on or after arrival of shipments at customs stations. If planned well in advance and appropriate level of effort is exerted by importers/customs clearing agents, collecting all relevant documents could not be a concern of customs clearance. The way importers/customs

clearing agents behave regarding compliance has been discussed under item number 4.6 below.

- ✓ **Lodgment of Declaration**: lodgment of declaration is a process of filling the declaration form manually, electronically or orally and submitting it together with all relevant supporting documents. When declaration is lodged electronically, it is done using the Value Detail Declaration (VDD). The declaration form together with supporting documents is verified for its accuracy and completeness by Face Vet officer in the system. As long as the declarant fills out the form correctly and attaches all required documents, it will pass over to the valuation officer quickly and is not as such a concern of delay. But there are times where declarants fill the declaration form incorrectly and/or miss supporting documents. Similarly, there are times where the Face Vet officer requires unprecedented supporting documents for various reasons. In this case, delay occurs.
- ✓ **Physical Examination**: this is a process whereby customs officer may, to ensure all goods are covered by a registered declaration, examine or inspect goods and take sample for analysis. Physical examination takes place, mainly based on the risk analysis result of the shipment in ASYCUDA++. For this reason, this process has no significance for customs clearance delay.
- ✓ **Customs Valuation:** this is a process of determining duty paying value of imported goods using the different valuation methods prescribed above. According to most respondents, customs valuation process is characterized by open ended and subjective decisions. According to respondents, it is at this step where commercial invoices, which passed the document verification step by Face Vet officer is denied acceptance. As explained by respondents, importer/customs clearing agents usually use commercial invoices while filling out declarations but it is very rare that commercial invoices are accepted and taken as a basis for customs valuation by customs officers (assessors). This is also the step where mistrust of importers is demonstrated: Importers claim that the invoice they produce is genuine while customs officers are not convinced to accept. Among others, one of the reasons for customs officers to reject invoices as a basis for customs valuation is the provision in Directive 94/2006 (EC) Article 5.2 where it grants customs officers the discretion to reject invoices when he/she believes or speculates that one or more of the provisions in the Proclamation

is/are not fulfilled. This discretion is highly subjective which encourages customs officers to reject genuine commercial invoices. This process is often a source of importers/clearing agents complain which sometimes goes up in the hierarchy for senior level review. In addition to the above, Article 21.1 of the same Directive stipulates that in order to protect submission of under invoiced commercial invoices, the customs authority may prepare its own reference of list price from time to time and use to value problematic or high risk goods. According to Article 21.2, textile products, shoes, electronics, vehicles and spare parts are identified as high risk goods. Unless the importer accepts whatever the valuation officer determines, which most importers prefer, it takes significant time to file complaints and receive favorable decision. Both customs officers and importers/customs clearing agents have common stance that valuation is the main cause of customs clearance delay.

- ✓ **Tariff Classification:** tariff classification takes place using the Harmonized Commodity Description and Coding System. This step is where customs duty and other charges and taxes bracket is determined. Similarly to valuation, tariff classification has the same problem. As mentioned above, ERCA has introduced the Harmonized Commodity Description and Coding System for tariff classification purpose. According to respondents, this step of the customs clearance process is also characterized by subjective judgment of customs officers. The problem mainly occurs when the consignment consists of heterogeneous products. Customs officers often tend to classify goods to a higher tariff classification than has been classified by importers/customs clearing agents at the time of declaration. This again leads to unnecessary delay until the two parties agree on the classification either through appeal to a higher level involvement or the importer abandon the complaint.
- ✓ **Release of Goods**: Final release of goods from customs station has been represented by respondents as the simplest and shortest step of all customs clearance processes.

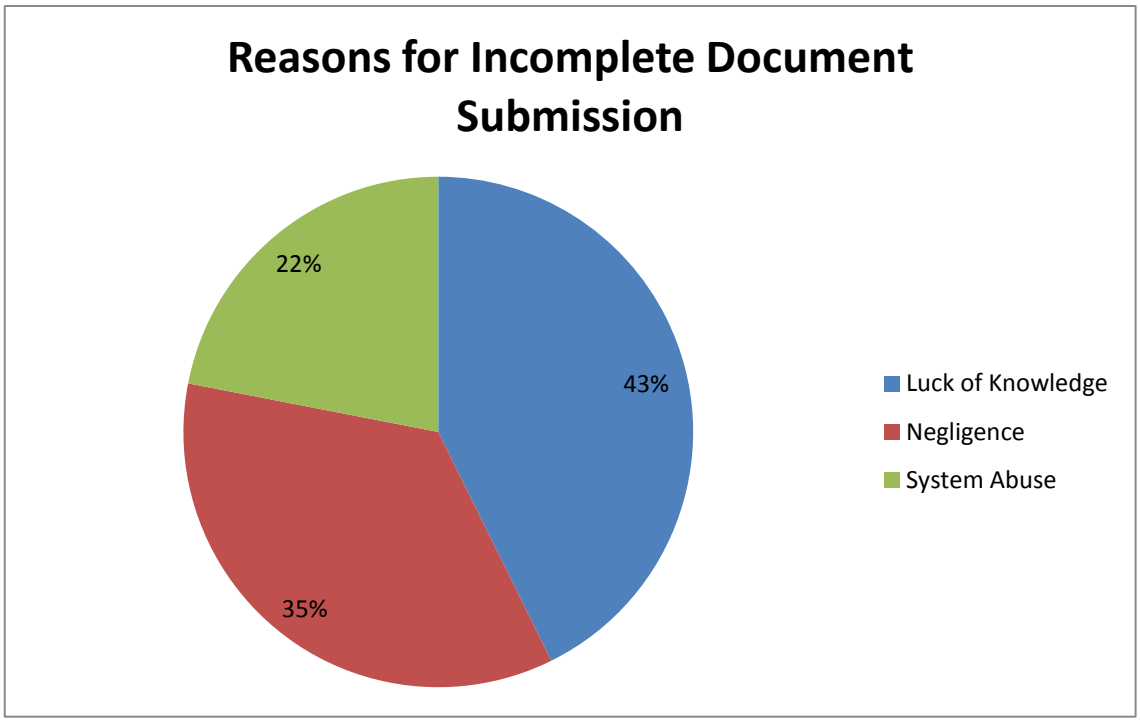
Generally, customs valuation and tariff classification have been identified by both customs officers and importers/customs clearing agents as the most time consuming steps due to mismatch between the two parties valuation and classification of goods. The remaining steps are represented by most respondents as auxiliary to the main causes of the problem. This interview result is consistent with the questionnaire result under Table 4.5 whereby 75% of

respondents agreed that imported goods are overvalued and classified to a higher tariff rate. Therefore, it is possible to conclude that customs clearance delay occurs mainly at the duty paying value determination (valuation) and tariff determination (classification) stage of the customs clearance process despite the fact that the role of producing all relevant documents and submitting correct and complete declaration could not be undermined.

4.6 Compliance to Customs Regulations and Procedures

According to Directive 94/2006 (EC), importers/customs clearing agents are required to present, among many others, the following mandatory commercial documents together with declaration form: transport document, commercial invoice, bank permit, packing list and certificate of origin. Customs officers were asked to indicate the reason why importers/customs clearing agents do not fill out customs declaration forms and submit complete supporting documents of imported goods. As can be seen in Figure 4.2 below, 43% of the respondents indicated „lack of work related knowledge" as the main reasons. As mentioned clearly under 4.3 above, this is because employees of privately incorporated customs clearing agents do not receive trainings by the tax administration. The second reason for incomplete document submission is „negligence of importers/customs clearing agents" with 35%. The remaining 22% is attributable to customs clearing agents" intention to abuse the system by producing false documents, bypassing certain procedures, deceiving customs officer, etc. Under this point, importers understanding of customs procedures seemed overshadowed by customs clearing agents" role. Customs clearing agents are the one who do the actual customs clearing task while importers produce all import documents and handover to customs clearing agents. Most customs clearing agents who run their own business independently mentioned that importers have problem of compiling and producing complete documents but the clearing agent take the face-shot as a frontline actor of the process.

Figure 4.2: Customs Officers Response of Reasons for Incomplete Import Documents



Source: SPSS Data Analysis Output, 2015

Customs officers were also asked how importers/customs clearing agents behave in dealing with customs clearance procedures. Table 4.6 below shows 42.4%, of respondents agreed that customs clearing agents tend to find short cuts through informal means instead of fulfilling requirements and going through the formal process. Out of the total respondents 27.1% agreed that importers/customs clearing agents have good understanding of customs regulations and procedures, and comply with those regulations and procedures. On the other hand, 16.5% of respondents agreed importers/customs clearing agents lack the prerequisite skill and knowledge of customs procedures. Being the percentage on the lower side of total respondents, this result is not consistent with Table 4.2 above. 14.1% of respondents agreed that customs clearing agents have good understanding of regulations and procedures but do not comply with the procedures and tend to challenge customs officers.

Table 4.6: Customs Officers Response on How Importers and Customs Clearing Agents Behave

Behaviour that best describe most importers and customs clearing agents	**Customs Officers response in %**	
	Frequency	**Percent**
They have good understanding of regulations and procedures,	23	27.1
They have good understanding of regulations and procedures but do not comply with those regulations and procedures	12	14.1
They tend to find short cuts through illegal means	36	42.4
They lack the prerequisite skills and knowledge of customs procedures	14	16.5
Total	**85**	**100**

Source: *SPSS Data Analysis Output, 2015*

On the other hand, interview results prove that the current customs operation is conducted under a very strict check-and-balance environment. In each customs stations visited during the study, there is a „one-to-five" setup (ande la"amist aderejajet) of customs officers whereby each officer"s performance is evaluated critically by members of such setup. In addition to this, web-cam is mounted in every corner of customs offices that can capture every movement in the premises. If a customs officer is found breaching customs procedures and seeking undue benefit in the performance of his/her duty, he/she will face serious penalty to the extent of losing job and imprisonment. For this reason, it is difficult to assume customs officers would be willing to risk their job. Similarly, importers/customs clearing agents will sustain sever penalty including lose of their trade license if found guilty. However, the level of risk to employees of customs clearing agents is lower compared to their employers, so it is not surprising if customs clearing agents attempt to circumvent the procedures.

Customs officers were also asked to explain what they know regarding importers/customs clearing agents" understanding of customs procedures. Normally, ERCA is the certifying and licensing authority of customs clearing agents. It provides a two months training with certificate of successful completion of the training before it grants the license. Because of this, customs clearing agents are supposed to know all customs regulations and procedures. However, there are two points worth mentioning related to continuity of such trainings.

a) ERCA does not organize refresher trainings on existing and newly evolving customs regulations & procedures regularly. Even if the tax administration arranges such trainings, it is not well planned and communicated in advance. There were times

customs clearing agents were told by the tax administration to go to meeting halls while they were at customs stations to do their regular duty.

b) Once customs clearing agents obtain their license from the tax authority, most of them do not attempt to explore ERCA‟s websites and update their knowledge.

It is also worth mentioning that importers, unless they have their own trained and licensed customs clearing officer, they are obliged to outsource the customs clearing task to a licensed agent. Subject to implementation flaws, this implies that ERCA‟s regulation requires all commercial consignments customs clearing task be undertaken by trained professionals. However, it does not mean those who do customs clearance of commercial consignments have received proper training and have adequate knowledge.

When customs officers were asked whether importers/customs clearing agents comply with customs procedures and submit complete import documents, the response was very difficult to generalize. Almost all respondents agreed that there are few clearing agents who have very good understanding, comply with procedures and submit complete documents while most clearing agents do not. Respondents outlined the followings as major causes of customs clearance delay born by importers/customs clearing agents:

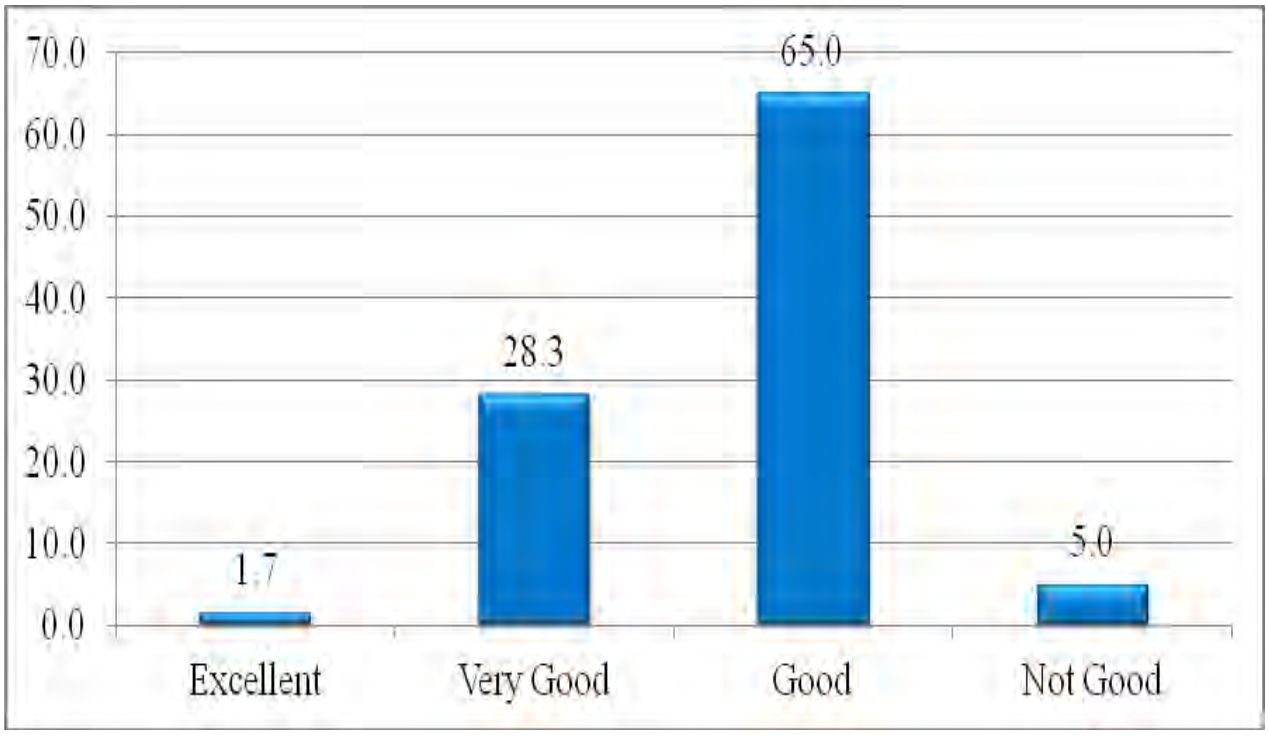
- Difference between what is declared on paper and physical examination,
- Misclassification of tariff (to the lower rate) on declaration form,
- Inherent lack of work related knowledge on customs procedures,
- Submission of customs declaration form with incomplete supporting documents.

Almost all respondents agreed that customs clearing agents do not try to provide false information on the declaration form because such act entails serious penalty to the extent of losing their license. This argument contradicts with the above response of customs officers regarding reasons for submission of incomplete documents (42.4% of respondents answered customs clearing agents attempt to abuse the system either by producing false document, deceiving customs officers, etc).

4.7 Customs Officers Knowledge of ERCA's Customs Regulations and Procedures:

As shown above on Table 4.6, one of the main reasons for customs clearance delay of imported goods is submission of incomplete import documents by importers/customs clearing agents. In order to triangulate the cause of the problem, customs officers were asked to rank their work related knowledge of ERCA"s regulations and procedures as „Excellent, Very Good, Good or Not Good". As can be seen in Figure 4.3 below, most respondents (65%) ranked their work related knowledge as „good", 28.3% as „very good", 5% as „not good" and finally only 1.7% as „excellent". This level of knowledge of the regulation and procedure clearly shows that customs officers lack the prerequisite technical skill and knowledge to expedite customs clearance process. In addition to this, the credibility of customs officers claim on the incompetency and non-compliance of importers/customs clearing agents falls under question mark. This implies that both customs officers and importers/customs clearing agents have their share of contribution for customs clearance delay.

Figure 4.3: Customs Officers Response - Knowledge of Regulations & Procedures:



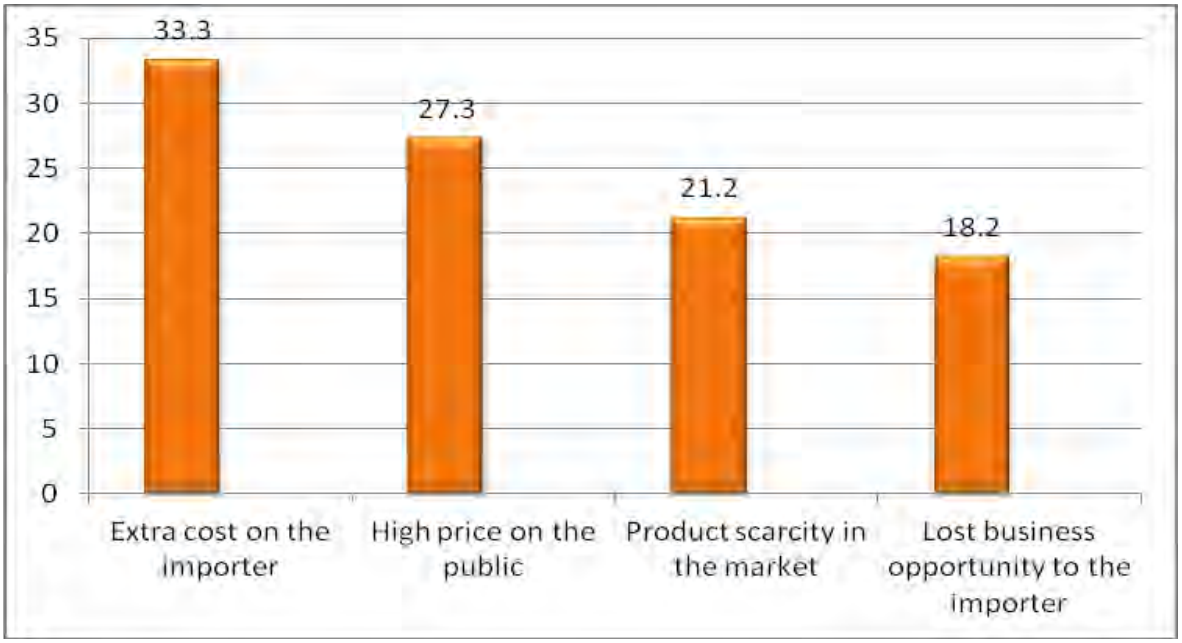
Source: *SPSS Data Analysis Output, 2015*

4.8 Consequence of Customs Clearance Delay:

Figure 4.4 below reveals importers/customs clearing agents‟ response to a question regarding consequence of customs clearance delays. The purpose of this question was to explore respondents view regarding possible outcomes of customs clearance delay on importers business. Respondents were asked to rate four possible consequences provided in the questionnaire. Accordingly, 33.3% of the respondents rated high cost on importers as the highest consequence of customs clearance delay. This cost on the importer could be in the form of warehouse fee, breakage & spoilage of goods while in customs warehouse, production interruption, manpower and other logistical costs to finalize the clearance process, etc. 27.3% of the respondents rated „high price on the public‟ as the highest consequence of customs clearance delay. The logic behind this outcome is that whatever cost importers pay due to customs clearance delay, the total cost will be added up to the sales price of goods. 21.2% of the respondents rated „product scarcity in the market‟ as the primary consequence while 18.2% of the respondents rated „lost business opportunity to the importer‟ as the primary consequence of customs clearance delay. Among the possible consequences presented for rating, there is no single outlier that emerged either as significantly high or significantly low rated result of the question. This signifies that all variables could be affected by customs clearance delay on imported goods.

In order to triangulate the respondents‟ perspective of this question, open ended interview question was administered to some the respondents. Most respondents put loss of business opportunity being the major consequence of customs clearance delay. However, this response mainly applies for importers who are engaged in a business where there are strong competitors. According to some respondents, there is mild intrigue in the business whereby importers make collusion with senior government officials and customs officers to hold other importers commercial goods at customs stations until they sold out their goods. Though not common, this type of incidence has multifaceted consequence on importers.

Figure 4.4: Response of Importers/Customs Clearing Agents to Consequence of Customs Clearance Delay



Source: *SPSS Data Analysis Output, 2015*

4.9 Outcome of Proclamation 859/2014:

Compared to previous Customs Proclamations, provisions of Proclamation No. 859/2014 are prepared in due consideration to the WCO provisions, the WTO Customs Valuation Agreement and the prevailing international trade practice. Both customs officers and importers/customs clearing agents were asked whether the enactment of Proclamation No. 859/2014 has brought about meaningful improvement on the customs clearance process at customs stations. Table 4.7 below shows, 63.3% of customs officers responded „yes" while the remaining 36.7% responded „no". On the other hand, 66.7% of importers/customs clearing agents responded „no" while the remaining 33.3% responded „yes". Generally, although the opposing direction of the two group"s response is another concern, the impact of the new proclamation on trade facilitation and customs clearance process is found to be low. The main reason for the impact of the new proclamation on customs clearance process to remain low is that it was not fully implemented until this research was published.

Interview was conducted with selected officers at ERCA Head Quarter regarding the implementation and result of Proclamation 859/2014. ERCA is the responsible body for

preparing implementation directives and manuals based on this proclamation. Although one year has already lapsed since the proclamation is enacted, ERCA is still working on preparation of directives and manual where implementation of the proclamation requires such directive and manual. Determination of customs valuation and duty and other charges of imported goods are still governed by Directive 94/2006 (EC) which was prepared in January 2014 based on the repealed Proclamation No. 622/2009. However, it is worth mentioning that, by the time data was collected for this study, ERCA was working on the preparation of new directive based on the current proclamation.

Table 4.7: Customs Officers and Importers/Customs Clearing Agents Response on the Effectiveness of Proclamation No. 859/2014 on Customs Clearance Process

Questions	**Customs Officers**		**Importers/Clearing Agents**	
	Frequency	**Percent**	**Frequency**	**Percent**
Do you think the issuance of proclamation No. 859/2014 has brought about positive change in the customs clearance process?				
Yes	38	63.3	16	33.3
No	22	36.7	32	66.7
Total	60	100	48	100

Source: *SPSS Data Analysis Output, 2015*

4.10 Summary of Findings

The Ethiopian customs system is bounded by a lot of problems which steam mainly from low socio-economic development. Delay at customs stations has been identified as major challenge of imported goods customs clearance. Customs valuation and tariff classification have also been identified as major areas for the cause of customs clearance delay. Customs valuation and tariff classification are the key workflow of customs clearance process. These key workflows are often characterized by mismatch in declarations lodged by importers/customs clearing agents and customs officers‟ decision on the valuation and tariff classification of imported goods. Findings of this research prove that customs officers often do not accept transaction value as a basis for valuation and tend to classify goods to a higher tariff rate of duties and other taxes. Customs valuation and tariff classification being the main areas for the cause of customs clearance delay, there are a number of factors contributing for the delay. Findings related to those factors have been discussed very briefly as follows:

- ✓ **Lack of Training**: Both customs officer and importers/customs clearing agents have adequate level of educational and work experience. From this stand point, it is possible to conclude that both parties have no problem to understand and implement regulations and procedures. However, 40.7% of customs officers and 41.7% importers/customs clearing agents did not receive work related training during their tenure in the job.
- ✓ **Continuous Revision and Amendment**: The national Customs Legislation currently enforce, was crafted, more or less, in line with the WCO provisions, the WTO Customs Valuation Agreement the international trade practice. However, the country‟s tax legislation in which customs is part of it and all derivatives of the national legislation (directives, manuals, etc) have been a subject of continuous revisions and amendments for the past two decades. This continuous revision and amendment has resulted in inconsistency which leads to discontinuity of knowledge and understanding of the tax system. Continuous revision and amendment of regulations and procedures has also affected transparency and predictability of customs procedures.
- ✓ **Absence of Single-Window-Service:** Obtaining other government regulatory bodies‟ license and certification remains one of efficient customs clearance and trade facilitation hurdles. In the 21st century where electronic data transfer (e-service) has become the order of the day of this world, Ethiopian importers and exporters spend much of their time to obtain a piece of paper form different regulatory authorities. To alleviate this problem, ERCA is currently working with all concerned government bodies to establish/setup single-window service within its premises. Depending on successful setup and implementation, the single-window service will significantly reduce the time and cost of customs clearance.
- ✓ **Lack of Involvement**: ERCA has airtime on Ethiopian Broadcasting Corporation (Radio and Television program) with a theme of „Gebi Lelimat‟ (Tax for Development). With these programs, ERCA is attempting to reach the larger public regarding the importance of tax and related regulations. However, there is weakness in involving and consulting the trading community regarding newly evolving customs regulations and organizing relevant trainings to create awareness and encourage voluntary compliance.

- ✓ **Mistrust**: Customs valuation and tariff classification have remained inherent/critical problems of customs clearance process, mainly for two reasons:
    - o Importers/customs clearing agents do not provide genuine and complete commercial documents,
    - o Customs officers do not rely on commercial documents produced by importers. For this reason, customs officers use other sources (price comparators) to determine the value of imported goods and often use higher tariff rates than should have been.
- ✓ **Lack of Compliance**: Non-compliance to existing customs legislations have been found to be a problem of both importers/customs clearing agents and customs officers. This leads to unnecessary back-and-forth between importers and the tax administration.

CHAPTER FIVE
5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion:

The main objective of this study was to identify challenges and prospects of imported goods customs clearance in Ethiopian Revenue & Customs Authority (ERCA) and its consequence on trade facilitation, and finally to generate recommendation based on research findings. The study has been focused mainly on assessing existence of co-operation among government customs regulatory bodies, identifying availability of proper consultation of the trading community to encourage voluntary compliance, ascertaining provision of training on customs regulations and procedures, identifying availability and accessibility of regulations and procedures, evaluating whether international and regional customs conventions and national legislations are applied properly, and identifying efforts being undertaken to improve time release of imported goods and the overall customs procedure.

The author of this study has tried all possible means and techniques to obtain reliable firsthand information during the data collection phase of the study. The survey data were also collated very carefully to avoid misleading results and it was analyzed with due care and attention.

Accordingly, the general finding of this study indicates that, since its establishment in 2008, the overall operation of Ethiopian Revenue and Customs Authority had been guided by Proclamation No. 622/2009 until this proclamation was repealed and replaced by proclamation No. 859/2014 in December 2014. Basically, the two proclamations were prepared with due consideration of the prevailing international customs conventions and international trade practice. Directive 94/2006 (EC), also known as „*Imported Goods Customs Valuation*", which was crafted based on Proclamation No. 622/2009, is still the main operational manual in force for imported goods. However, it is worth mentioning that the author of this study has learnt during data collection period that ERCA was working to replace this Directive with new one which was being prepared based on Proclamation 859/2014. As the title implies, Directive 94/2006 (EC) deals only on the valuation part of the entire customs clearance process related to imported goods. This Directive has many gray

areas regarding supporting commercial documents requirements and value determination which leads to subjective decision. Replacement of the directive is considered as timely and pivotal to clear those gray areas and minimize subjectivity of decisions.

Other components of customs operations are guided by the latest proclamation No. 859/2014 and pieces of circulars issued by the Tax Authority from time to time based on growing experience on the implementation of the new proclamation and the prevailing international trade practice. Other than the proclamation, the Tax Authority does not have implementation manual for other procedures of customs clearance, including tariff classification. Regarding tariff classification, Article 102, Sub Article 3 of Proclamation 859/2014 stipulates that „*documents prepared by WCO in relation to classification of goods shall be taken as conclusive evidence*". As a result of this, tariff classification has remained vague and exposed to subjectivity. This finding is in consistent with Tilahun (2014).

The Harmonized System (HS), which is administered by the WCO, is a very important tool in the regulation and implementation of the WTO customs law. For example, trade agreement between two countries requires a means of identifying the type of goods and the levels of duties which each country will levy on those specific goods. Harmonized System assists in effecting this identification and classification. According to Kafeero (2011), although the Harmonized System is not administered by the WTO, classification issues are very significant in matters that fall within the competence of WTO and many GATT and WTO disputes have involved questions relating to classification. The HS is subject to constant review and is updated every four to six years in order to include newly evolving goods into the international market. Despite the effort to update contents of the system from time to time, it is hard to conclude the HS is alpha and omega at all times. Similarly, tariff classification is a concern of transparent and efficient customs clearance procedure in the Ethiopian Revenue and Customs Authority. In addition to this, overlapping between the old and the new proclamations coupled with continuous revision and amendment of customs regulations and procedures has affected its consistency and continuity of good practices. As clearly discussed under Chapter 4, one of the reasons for customs officers and importers/customs clearing agents lack of solid understanding is absence of relatively stable customs procedure which serves long period. One of the specific objectives of this research was to test understandability, predictability and accessibility of customs regulations and procedures.

Basically, although Ethiopia is not member of WTO yet, the provisions of both Proclamation No 622/2009 and 859/2014 regarding value determination of goods are similar with the World Trade Organization valuation agreement. Directive 94/2006 (EC), was also prepared based on the proclamation. However, the provision regarding commercial documents required of importers is complicated. Only the following supporting documents are known to be mandatory commercial documents which should be submitted together with goods declaration:

- Transportation documents,
- Invoices,
- Bank permit,
- Packing list, and
- Certificate of origin,

According to the proclamation in force, other documents necessary to ensure compliance with customs laws can be prescribed by directive. Accordingly, Directive 94/2006 (EC) has prescribed a number of supporting documents which should be submitted together with goods declaration as it is found to be necessary. It is this phrase that opens loophole for subjective decision. Importers/customs clearing agents cannot be certain which supporting documents would be needed in addition to the above mandatory documents. In addition to this, the provision of this directive regarding the duties and responsibilities of customs officers grants indefinite discretion to reject importers declarations for a number of reasons.

The above mentioned provisions cause unnecessary back and forth of declarations between customs officers and importers/customs clearing agents. As a result of this, duty paying value determination and tariff classification processes are characterized by subjective decision and are the main causes of customs clearance delay. For this reason, predictability of customs clearance process is found to be difficult.

The Ethiopian Revenue and Customs Authority have been engaged in a series of structural adjustments and tax reforms since its establishment in 2008. As a result of this, the Authority has been able to register visible achievements in many infrastructural establishments and law enforcements capabilities for the past several years. However, the research result shows that ERCA still remains behind on human development. It has been learnt that since recent years,

ERCA has started recruiting fresh university graduates with good academic standing. However, as can be seen in Chapter 4, significant numbers of employees have never received work related training. ERCA is also the certifying and licensing authority for customs clearing agents. However, comprehensive skill upgrading trainings for clearing agents are not organized on regular interval. Given the impact of other factors, the low level of voluntary compliance of importers/customs clearing agents to the prevailing regulations and procedures is attributable to absence of proper consultation and training.

Globalization has brought about dramatic increase in cross-border trade. Due to this the competitiveness and complexity of international trade has become very dynamic and unpredictable. Asian multinational companies are overwhelmingly flooding in to Africa in different forms. One of their strategies is market penetration through very competitive price. To this effect, sometime governments also subsidize these companies to encourage export business. This practice has widened the already existing gap of mistrust between the ERCA and importers. One of the reasons for the Customs Administration not to fully implement customs valuation based on invoice value is to minimize the impact of such kinds of intrigues on legitimate trade. As a result of this, import goods and related commercial documents are scrutinized meticulously. Such scrutiny contributes for customs clearance delay at customs stations in which genuine traders are victimized. This finding, to a certain extent, is similar to the finding of Tewoldebirhan (2011) in which he mentioned that the Tax Authority do not trust the value of goods produced by importers.

Involvement and consultation of the trading community regarding customs regulations and procedures is one of the indicators of efficient customs administration and existence of trade facilitation. Consultation encourages voluntary compliance and helps to improve procedural flaws. Although ERCA use public media such as radio and television to raise public awareness on prevailing tax regulations, it is not successful in creating a sense of voluntary compliance in most cases. The above mentioned mistrust between the tax authority and the trading community is an indication of weak effort by the tax authority.

Obtaining commercial documents, licenses and certifications from different government regulatory bodies and compiling those documents for submission to the customs

administration has been found to be one of the time consuming effort of the trading community. In order to obtain such documents, importers should knock at each regulatory body"s office although the time spent in each office varies. In addition to the time spent to obtain such documents, the process involves additional cost to importers.

5.2 Recommendations:

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

I. **Investing on Human Resource Development**: It is evident that the Ethiopian Revenue and Customs Authority has been exerting its utmost effort to transform the customs system into modern and expedient system compatible to the Revised Kyoto Convention (RKC), the World Trade Organization Customs Valuation Agreement and the prevailing international trade practice. ERCA has also developed strong legal frameworks which would enable to enforce compliance with international conventions, trade agreements and national legislations, although there are loopholes on those legal frameworks as mentioned under 5.1 above. However, human development effort of the tax administration is not moving forward parallel to the infrastructure and legal framework developments. One of the reasons the longstanding customs clearance delay could not be solved is because regular, adequate and relevant training is not given to employees and other stakeholders Therefore, the tax administration should develop specific training curriculum of the work flow of customs procedures and provide training at a regular interval to its employees at various levels and to importers, especially to customs clearing agents.

II. **Defining Document Requirements Clearly**: One of the principles of Proclamation No. 859/2014 is to promote a self assessment system whereby importers and exporters present the value of goods and pay duties and taxes by themselves with the objective to establish modern and simplified customs procedures. However, Directive 94/2006 (EC), which is the main procedural manual for valuation of imported goods, requires importers to present many commercial documents from suppliers, brokers, insurance companies, freight forwarders, government regulatory authorities, etc. This

requirement demands significant time and energy of importers. In order to simplify customs procedures, the tax authority should minimize the number of required commercial documents focusing only on important and critical ones.

III. **Establishing Single-Window-Service:** Obtaining government regulatory authorities" license and certification has also been identified as cumbersome, time consuming and expensive for importers. Coordinated cooperation among the different government regulatory bodies helps to minimize, if not avoid, this problem. In order to mitigate this problem, it has been learnt during the course of data collection of this study that ERCA, in collaboration with other stakeholders, is working to establish single-window service whereby the trading community will get the service of all authorities in one roof. ERCA, as the main actor of customs procedures, should expedite the setup process and implement the service.

IV. **Building Mutual Trust**: Another problem identified during the course of this study is that there is no trust between customs officers and importers/customs clearing agents. This mistrust has forced the tax authority to establish legal framework which allows detail scrutiny of commercial documents and declarations on the one hand and physical examination of goods on the other hand, which ultimately leads to customs clearance delay. ERCA is the responsible body to avoid such type of contention and promote sustainable partnership, primarily built up on trust and common understanding through consultation and training. Similarly, in order to help build the required level of trust, importers should use professionally and organizationally competent customs clearing agents. Importers should also present genuine commercial documents issued by competent body at all times. Likewise, customs clearing agents should build their competence on customs procedures and be in a better position to advise their clients proactively.

V. **Genuine Dialogue and Consultation with Stakeholders:** The Ethiopian Revenue and Customs Authority is the overall regulatory body charged with the duty of mobilizing, facilitating, coordinating and regulating the country"s customs system. The prevailing practice witnesses that voluntary compliance of the trading community with customs regulations and procedures is not to the required level. In order to

encourage voluntary compliance of the trading community, ERCA should organize dialogue forum for all stakeholders on regular basis and promote public awareness on customs regulations and procedures. In addition to this ERCA should involve and consult all stakeholders in the process of revision and amendment of customs regulations and procedures. Generally, ERCA should establish participatory and transparent system in such a way that entertains and accommodates stakeholders‟ views and opinions.

VI. **Move towards Post-Clearance Audit Procedure:** Post-clearance audit is one of the tools to expedite customs clearance process. However, post-clearance audit should be introduced without compromise on customs duties and taxes that should be paid to the government. In order to apply post-clearance audit procedure in the customs system, importers should maintain proper books of accounts that allow audit trial. ERCA should also modernize customs procedures through establishment of transparent and simple rules and procedures and promoting voluntary compliance by building a system of self-assessment supported by well-designed post-clearance audit procedure. This can be implemented through the use of new technologies, appropriate involvement of private sector, designing incentive systems to overcome governance issues, introduction of a customized capacity building plan to enable customs administration to implement the necessary changes to its management and operational environment.

Finally, in addition to the above recommendations which are directly related to the objective of the research , the author of this study would like to recommend other researchers to conduct academic research on Ethiopian customs clearance time release study. This kind of research will help to address main problems of the customs system and encourage the effort being exerted by the tax authority to modernize the country‟s customs system.

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