

# THE IMPACT OF BORDER CLEARANCE PROCEDURES ON THE COST OF DOING BUSINESS IN ETHIOPIA

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# ACRONYMS AND ABBREVIATIONS

AEO	Authorized Economic Operator
AAP	Addis Ababa Posts (customs station)
ASYCUDA	Automated System for Customs Data
BAF	Bunkers Adjustment Factor
BPR	Business Process Re-engineering
CAD	Cash Against Documents
CAF	Currency Adjustment Factor
CCO	Chief Collector Outdoor (Ghana)
CEPS	Customs, Excise and Preventive Service
CIF	Cost, Insurance and Freight
C&F	Cost and Freight
CLIS	Client-Oriented Logistics Information System
DFID	Department for International Development (UK)
EAL	Ethiopian Airlines
EDI	Electronic Data Interchange
EEPCo	Ethiopian Electric Power Corporation
EFMH	Ethiopian Food, Medicine and Health Care Administration and Control Authority
EIA	Ethiopian Investment Agency
ELICO	Ethiopian Leather Industries Company
ERCA	Ethiopian Revenue and Customs Authority
ESL	Ethiopian Shipping Lines
FOB	Free on Board
GCNet	Ghana Community Network
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
HR	Human Resources
HS	Harmonized Commodity Description and Coding System
IBD	International Banking Division
ICT	Information Communication Technology
IDF	Import Declaration Form
IM	Import
KCS	Korea Customs Service
KRA	Kenya Revenue Authority
KPA	Kenya Ports Authority

LC	Letter of Credit
LI	Legislative Instrument
MoA	Ministry of Agriculture
MoFED	Ministry of Finance and Economic Development
MoH	Ministry of Health
MoTI	Ministry of Trade and Industry
NBE	National Bank of Ethiopia
OGAs	Other Governmental Agencies
PCA	Post Clearance Audit
PPP	Public Private Partnership
PPPDF	Public Private Partnership Dialogue Forum
PSD	Private Sector Development
PTC	Permanent Technical Committee (of the WCO)
QSAE	Quality and Standards Authority of Ethiopia
RKC	Revised Kyoto Convention
SAC	Self Assessed Clearance
SPS	Sanitary and Phyto-sanitary (Certificate)
T1	Road Transport Manifest (Transit document)
TBT	Technical Barriers to Trade
Teu	Twenty foot Equivalent Unit
TT	Telegraphic Transfer
TIN	Tax Identification Number
TIR	Transport International Routier
TRA	Tanzania Revenue Authority
TRS	Time Release Study
TTF	Trade and Transportation Facilitation
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

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

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

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

In view of the importance of efficient and effective import/export procedures, the Private Sector Development Hub contracted out this study which examines the current problems and constraints related to border clearance and their impact on the cost of doing business in Ethiopia.

### 1.2 Objectives

This study investigates the current problems and a constraint related to border clearance, and proposes actionable recommendations that help improve the business environment. It focuses on:

- Identifying shortcomings and constraints of the current clearing system in terms of, among other things, customs and other legislations relevant to the importation and exportation of goods, procedures and practices of customs and other agencies involved in the import/export process;
- Procedures and practices of non-governmental entities such as trucking operators, cargo handlers, stevedoring companies and shipping agents;
- Resources, including customs resources engaged in import/export work, their deployment in relation to the work required and in relation to the risks perceived;
- Physical infrastructure, including road, rail, sea, air, and any other logistical constraints to trade; and
- Making recommendations for policy measures that overcome the shortcomings and constraints identified.

The main expected output will therefore be an in-depth study which presents and analyses problems related to border clearance and forwards specific recommendations to the government and the private sector on how to overcome identified shortcomings and constraints.

### **1.3 Scope of the Study**

The scope of the study includes reviewing the current status of border clearance in Ethiopia (both in absolute terms and in comparison with the situation in other sub-Saharan countries), identifying potential mechanisms to ease constraints affecting border clearance, and facilitating the final and timely release of goods from Customs.

The specific tasks of the study are the following:

- Developing a methodology for the study, including information/data requirements;
- Reviewing the legislation, procedures and practices, resources, physical infrastructure, etc., relating to customs and all other agencies involved in the completion of import/export documentation;
- Validating and enhancing the review by conducting stakeholder interviews, not only with government officials, but also with private importers and exporters in order to gather useful information and opinions about the shortcomings of the current border clearance system;

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- Identifying global and regional best practices of countries that have successfully implemented reforms in the field of border clearance, and draw comparisons with the Ethiopian system;
  - Based on the above, conducting a gap analysis exercise (the current gap between the Ethiopian framework and best practices) so as to determine key constraints to the current border clearance system;
  - Based on the review and the benchmarking exercise, identifying possible options to ease the constraints to border clearance, to streamline and simplify procedures, and to facilitate the release of goods from Ethiopian customs;
  - Comparing the advantages and disadvantages of identified options, and making recommendations for implementation; and
  - Recommending policy measures to be taken in order to facilitate the implementation of the recommendations.

## **1.4 Methodology of the Study**

The Consultant adopted the following methods to undertake the study:

### **1.4.1 Literature Review**

Literature review was undertaken in order to assess the theoretical and empirical framework of customs clearance procedures. Similarly, practices of other countries that are high performers in customs clearance procedures were reviewed. In this regard, the experiences of Australia, Japan, Ghana, South Korea, Kenya, Tanzania, and Uganda were assessed.

### **1.4.2 Quantitative Analysis**

Studies conducted to measure the time required for the release of goods suggest that the study be conducted at points of entry with large volumes of traffic and at points of entry which process a wide variety of consignments, including commodities such as bulk goods or chemicals.

In Ethiopia there are about 22 customs stations which clear import/export cargo. Out of these, six custom stations, namely, those at Kaliti (2), Bole Cargo Terminal, Diredawa (La Gare and Airport), Metema/Gendawuha and Moyale were selected for this study.

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The consultant used the 2010 annualized data of the ERCA Branch Customs Offices of Kaliti, Bole and Diredawa where more than 90% of the country's imports are handled. The 2010 annual import-export data of Ethiopia by all the customs stations, as recorded by ASYCUDA<sup>++</sup>, were also collected, collated and analyzed to determine clearance time. The export-import data of selected countries were also employed from other sources for comparing the per capita import/export indicators with that of Ethiopia.

### **1.4.3 Qualitative Assessment**

Taking the literature review as a reference point, the Consultant made qualitative assessment of border clearance procedures and their impact on the cost of doing business in Ethiopia by conducting interviews with representatives of regulatory bodies and other stakeholders related to export/import trade in Addis Ababa as well as paying working visits to selected customs stations in other parts of Ethiopia.

## **1.5 Organization of the Report**

In this report Chapter One presents the background, objectives, scope and methodology of the study. Chapter Two discusses the theoretical and empirical reviews as well as the experiences of other countries with respect to border clearance. Chapter Three explains the current customs clearance procedures in Ethiopia. This is followed by Chapter Four which highlights the problems and constraints of the current border clearance system and its impact on the cost of doing business in Ethiopia. Chapter Five comprises conclusions and recommendations.

# CHAPTER TWO

## LITERATURE REVIEW AND COUNTRY EXPERIENCES

### 2.1 Literature Review

#### 2.1.1 General

According to the World Customs Organization (WCO)<sup>1</sup>, one of the focal issues in international trading is the performance of customs and their efficiency in clearing goods. In the modern business environment of just-in-time production and delivery, it has become ever more important that traders are guaranteed fast and predictable release of goods. Being the foremost agency at the border and a prominent player in the release of goods, Customs should therefore strive to reduce the complex clearance procedures and limit information requirements to the bare essentials.

Modern customs administrations have recognized that streamlining and simplifying clearance procedures are beneficial to importers, exporters and national economies. Customs administrations are thus increasingly introducing simplified procedures so as to put in place efficient and effective clearance procedures while maintaining the traditional duties of revenue collection and enforcement.

Delays in any customs station can arise due to a variety of reasons, the most frequent ones being determination of the correct classification, the assessment of the value of the goods for customs purposes, and missing documentation<sup>2</sup>.

Most transits take place between landlocked countries and countries with access to the sea. When available, transit by rail offers a number of advantages, including simpler customs transit mechanisms. Rail transit is widely used in Central Asia and is being rejuvenated in West Africa.

Customs transit is only part of a wider transaction range that includes many other participants and procedures — cross-border vehicle regulations, visas for truck drivers, insurance, police controls, infrastructure quality, quality of available transport services, and the organization of the private trucking sector. Even if transit procedures are made effective and efficient, full trade facilitation will require that the above mentioned issues are dealt with too.

<sup>1</sup> World Customs Organization, 2002, “Guide To Measure The Time Required For The Release Of Goods”.

<sup>2</sup> A report jointly produced by the World Customs Organization (WCO) and UNCTAD

## 2.1.2 Principles of Customs Transit Regimes

Transit procedures should permit the movement of goods from the point of entry into the customs territory of the transit country, and finally to the country of destination without the payment of import duties, taxes and other charges due on importation, and without being subject to other import regulations such as health and safety inspections applicable in the transit country. In the absence of streamlined operations, the transit procedures can be daunting. The table below summarizes the sequence and payments associated with the transit of import cargo.

**Table 1: Transit Procedures without Facilitative Measures**

Activity	Documentation	Charges	Comments
Sea transport		Sea freight	
Unloading import	Bill of lading	Port charges	
Inspection and clearance by customs	<ul style="list-style-type: none"> <li>- Invoice to determine value, classification, and weight that permit the calculation of duties to be guaranteed</li> <li>- Transit declaration</li> </ul>	Guarantee (deposit)	Deposit equal to part or total amount of duties, taxes, and other charges due on importation in country of departure
Loading of vehicle			Seals applied
Formation of a convoy		Convoy charges	Noncompliant with generally agreed principles. May lead to inappropriate practices
Road transport in transit country		Road transport charges	
Controls en route			Noncompliant with generally agreed principles. Transit often is impeded by a number of road checks (police and customs)

Activity	Documentation	Charges	Comments
Customs inspection upon exit from first country	Copy of transit document		Seals are checked. If the transit operation can be cleared, a copy of the transit document is sent to the central customs office and then the guarantee can be discharged
Border inspections (vehicle)			Driver's license and insurance of vehicle checked. If invalid, change of operator needed
Transfer to other truck		Transfer charges	Noncompliant with generally agreed principles. Cargo can be damaged, lost, or stolen
Customs inspection upon entry in the destination country	Transit declaration (Beginning of a national transit link)	Guarantee (deposit)	Deposit equal to part or total amount of duties, taxes, and other charges due on importation in second country
Other inspections upon entry into second country	All documents		Security and health checks involving several stops. Control of seals
Arrival at destination	All documents	Costs of damage or loss	Seals broken, duties paid, guarantee discharged

**Source:** Jean Francois Arvis, "Transit and the special case of Land locked Countries"

International experience shows that many developing countries have not been able to develop smooth transit regimes. There are several bottlenecks to overcome in implementing the previously described mechanism, including the unavailability of guarantees, inferior quality of transport services, the need for convoys, corruption, weak enforcement during transit, lack of standard documentation between the transit and destination country, sub-optimal utilization of computerization and information technologies, etc.

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The international transit procedures stipulate the harmonization of country-specific procedures and documentation as well as an internationally accepted guarantee system. Hence an international regime facilitates transit better than a chain of national procedures. The Transport International Routier (TIR) Convention allows the temporary suspension of customs duties, excise duties, and Value Added Taxes (VAT) payable on goods originating from or destined to a third country while under transport across the territory of a concrete customs zone. Such suspension remains in place until the goods exit the customs territory concerned, are transferred to an alternative customs regime, or the duties and taxes are paid, and the goods have entered free circulation. The five main pillars of TIR are:

- Secure vehicles;
- International guarantee valid throughout the journey;
- National associations of transport operators;
- TIR carnets;
- International and mutual recognition of customs control measures; and
- Insurance and Issuance of TIR carnets.

### **2.1.3 Principles of Customs Clearance Procedure**

Nowadays many countries are striving to simplify clearance procedures of their customs administration in a bid to ease the cost of doing business to importers and exporters, thereby benefiting the national economies. These countries conduct their time release studies following the guideline developed by the WCO.

A Time Release Study (TRS) is a systematic and standardized way to measure the average time taken between the arrival and release of goods, and can also be used at each step. It is a diagnostic tool providing concrete baseline data for identifying any bottlenecks in the clearance process and logistics. It helps to evaluate the impact of reform or modernization initiatives taken by the public and private sectors. Intended for measurement of Trade and Transportation Facilitation (TTF), TRS serves as a multipurpose tool for customs, other government agencies (OGAs) as well as the private sector involved in the trade supply chain. It provides a mechanism to further improve national trade competitiveness by enhancing the national TTF. It is also a persuasive indicator to demonstrate progress made and further requirements to the budgetary authority and the donor community.



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The WCO has promoted the TRS and concentrated efforts to develop guidelines and software to address the emerging trade facilitation agenda. TRS was developed by WCO and adopted by the Permanent Technical Committee of the WCO in 1994, based on similar initiatives in USA and Japan.

For the purpose of benchmarking border clearance procedures and their impact on the cost of doing business in Ethiopia, the experiences of a few countries are highlighted hereunder.

## 2.2 Country Experiences

Best practice benchmarking involves a study of other countries that are high performers in customs time release. The working procedures of these countries are analyzed and the knowledge gained about best practices adopted and incorporated into other country's processes.

### 2.2.1 Landlocked Countries

Being landlocked is associated with high logistics costs and many developmental problems. Out of the 31 landlocked<sup>3</sup> developing countries, 16 are highly indebted poor countries (HIPC), and 20 of the 50 least developed countries worldwide are landlocked. Research conducted by the World Bank and other organizations concluded that transport costs in a typical landlocked country is 50% higher than in a typical coastal country, while the volume of trade is 60% lower. Furthermore, a substantial part of the cost may be attributed to border crossing. It is estimated that the total cost of crossing a border in Africa is the same as the cost of inland transportation of over 1,000 miles (1,600 km) or the cost of 7,000 miles of sea transport (11,000 km). This places landlocked countries at a great disadvantage.

In comparison, the cost of crossing a border in Western Europe is equivalent to only 100 miles of inland transportation. The differences in absolute transportation costs between countries and the increase in transportation costs induced by borders reflect direct transportation and legitimate fees. However, these costs are increased substantially by cumbersome customs transit procedures — excessive deposits, mandatory convoys, etc. — without which these transit operations cannot be undertaken.

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<sup>3</sup> The 31 landlocked countries in developing countries are Macedonia and Moldova (Europe); Afghanistan, Armenia, Azerbaijan, Bhutan, Kazakhstan, Kyrgyz Republic, Laos, Mongolia, Nepal, Tajikistan, Turkmenistan, Uzbekistan (Asia );Botswana, Burkina Faso, Burundi, Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, Niger, Rwanda, Swaziland, Uganda, Zambia, Zimbabwe(Africa); Bolivia and Paraguay(South America).

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Transit operations often involve long delays that substantially add to transportation costs<sup>4</sup>. For instance, a recent trade audit for Chad estimated that the trip from the sea gateway takes as long as a month due to mainly procedural delays. These induced costs, including the financial charges related to the guarantees, the cost of transport equipment held up by these transit procedures as well as the requirement to maintain high inventories. Poorly functioning transit operations also increase the vulnerability of transported goods to theft.

Transit procedures in landlocked countries affect exports and imports differently. Transit costs are somewhat less for exports than for imports. Exports frequently leave these countries without paying duties. So the countries are less worried about revenue losses, thus making complex controls unnecessary. Moreover, exporters are fewer than importers and better equipped to deal with transit logistics. Therefore, for the most part, customs transit is an import concern.

## **Uganda**

One of the landlocked African countries, Uganda, undertook a comprehensive reform program which aimed at trade liberalization and customs modernization in the 1990s. The initiatives included the establishment of an independent revenue agency to improve revenue collection. 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<sup>++</sup>, and simplification of customs procedures. The reform program brought considerable results. Income of the Uganda Revenue Authority increased from 7.7% to 13.0% of GDP in the ten-year period to 2002.

### **2.2.2 Coastal Countries**

#### **The Asia-Pacific Region**

In the Asia-Pacific Region, a number of TRS programs have been conducted both at national and regional levels with the WCO capacity- building support. Critical findings and significant lessons can be drawn from regional experiences to show how to roll out and use the TRS effectively.

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<sup>4</sup> These can include customs documentation processing; immigration, insurance, and transit bond procedures; security inspections and weigh stations; phyto-sanitary and traffic checks.

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In the Asia-Pacific Region, the rationale behind TRS is a continuous improvement cycle; TRS is never a stand-alone activity. The imperatives to enhance TTF call for honest and accurate analysis of the clearance process. Conducting a TRS will identify the bottlenecks in clearance and assist in finding solutions for delays and necessary measures can then be taken.

Under the WCO umbrella, the Asia- Pacific Region comprises 32 members. In terms of development level and customs capacity, these members are diverse. In developed countries/regions like Australia, Japan, Korea, New Zealand, Singapore and Hong Kong, customs modernization is well advanced and these countries could be regarded as among the leading economies. There are also large developing countries like China and India, and some less developed countries like Bhutan and Laos, where customs capacity needs a deal of enhancement. Such regional disparity provides potential for improved trade facilitation through capacity building.

The parties involved in the TRS extend well beyond Customs. Close communication and cooperation among all the stakeholders such as the national government, Customs, OGAs, donors, and the private sector, are integral to smooth implementation. Clear project boundaries, objectives, and the responsibilities of each party are stipulated. As the focal point in border management and control with unique expertise in clearance procedures, Customs is usually recommended to lead and monitor the project.

At a national level, Japan and Korea provide two different models for the collection of data and their experience is significant for other regional members. Japan conducted the first pilot TRS in 1991, and since 1993 the study has been conducted every two or three years with implementation being consistent with the TRS Guide. Up to now, nine studies have been conducted with the latest conducted in 2008. With strong support from all the relevant government ministries and the trade and transportation communities, following careful analysis of the survey results, Japan Customs introduced a series of modernization initiatives, procedures and techniques such as computer-based risk management, an automatic clearance system such as Single Window and pre-arrival declaration, and more recently the Authorized Economic Operator (AEO) program.

Japan Customs also works closely with OGAs and the private sector to facilitate procedures and update facilities. As a result, substantial improvement has been made: from 1991 to 2006, the average release time for sea cargo has been reduced from 7 days to 2.7, and for air cargo, from 2.2 days to 0.6 day. In total, there has been a reduction in nearly two-thirds of the clearance

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time, and statistics from the Japan Ministry of Finance show that 40 billion Japanese *yen* could be saved in one year. Japan's case demonstrates that a TRS can yield substantial benefits both for the public and the private sectors, if used effectively.

Korea Customs Service (KCS) completed the electronic-based import cargo management system and import clearance system in 1997 and, utilizing the processing time recorded in the systems, developed a method of calculating — at major logistics stages — the average processing time of all imported cargoes brought into Korea for a specific time.

In 2006, KCS updated the existing system into an independent, web-based TRS system, which enables automatic TRS measurement of all processes and scope on a real-time basis of average processing time, standard deviation and performance of individual logistics participants, and information-sharing among stakeholders. KCS named the system 'Client-orientated Logistics Information System' (CLIS), highlighting its client-orientated function and automated, independent information system.

CLIS is differentiated from existing electronic-based TRS measurement systems in that first, its statistics are based on complete enumerations rather than sampling; second, all measurement scope and processes are done by an automated, independent system; and third, clients can get all related logistics information through the internet free of charge.

## **Australia**

The Australian Government conducted time release studies for three years in a row starting from 2007. The Australian Customs and Border Protection Service was the responsible organ for conducting these studies. Under these studies, changes in the performance of the reporting periods were analyzed and the results used for further improvement in customs procedures.

The results of the Australian 2009 TRS show that ocean cargo is on the average released more than 16 hours before becoming physically available for collection. On the other hand, air cargo is on the average released more than four hours before becoming physically available for collection. The study further indicates that 86% of all cargo is either released or ready to pay at the time of first physical availability. Moreover Self Assessed Clearance (SAC) cargo comprises 80% of reported air cargo. Release and clearance time for SAC occurs in more than 21 hours (0.9 days) before availability.

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More than 80% of the sea cargo is fully reported and has a customs unimpeded status within 24 hours of arrival, irrespective of the day of the week. More than 60% of the cargo is reported, released and cleared within 24 hours of arrival on all week days.

In 2009, the status of sea cargo at arrival shows that 52% was released on arrival, 27% ready to pay and only 13% with “document incomplete” status. Furthermore, sea cargo status at availability shows that 60% of sea-borne goods were released, 26% ready to pay, 7% impeded and 8% documents incomplete status.

Air cargo status at arrival in 2009, on the other hand, shows that 70% was released, nearly 1% ready to pay, 15% impeded and 14% documents incomplete status. At availability, 90% of the air cargo were released, 1% ready to pay, 4% impeded and 5% documents incomplete status. In both air and sea cargo, earlier reporting and border processing efficiencies have significantly improved the release and clearance times.

## **Ghana**

The Government of Ghana embarked upon the implementation of what it termed a Gateway Program, which sought to attract investments, to accelerate export-led growth, remove constraints to trade development and facilitation as well as investment mobilization in Ghana. The Government decided to reform the processes and procedures used by the Customs, Excise and Preventive Service (CEPS).

The Ghana Community Network (GCNet) was established in October 2000 as a joint venture PPP to ensure that all stakeholders with a vision for enhancing Ghanaian competitiveness participated in this electronic community network for the processing of trade and customs related transactions. The identified partners brought into the partnership, not only their financial resources, technical know-how, and other strengths, but also became very supportive “project champions” who drove the project.

### **(i) Legal / Regulatory Changes**

To implement the project, there was a need for reviewing the legislative framework that under-pinned Customs clearance. Whereas almost all the processes were manual in the past, the introduction of an automated system called for the enactment of new legislation that recognized electronic processing of transactions and payments. In light of this, a new Legislative

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Instrument (LI) was passed by Parliament. To ensure its easy passage through Parliament and subsequent conformance by stakeholders, the LI was drafted by a broad stakeholder group that ensured all stakeholder concerns were considered and addressed.

In a similar vein, relevant agencies like the Finance and Trade Ministries, Statistical Service, and Central Bank, were connected to the system to enable them to access data required for the preparation of their statutory reports (e.g., on foreign trade, revenue reconciliation or development planning purposes).

An e-services portal that enabled users, through the internet, to check on the status of their various declarations, access the valuation database, run web-based reports, and enable transit operators to track their consignments along the transit corridor was also introduced.

## **(ii) Achievements of the Project**

The implementation of the project finally resulted in the realization of the following all stakeholder goals, which of course had to also withstand the challenges indicated hereunder.

### **a. Simplified customs procedures**

There was a significant ease in clearances of goods through Customs.

- Clients shuttling to and from one agency to another to procure certain permits, licenses, or exemptions, which were required as part of the clearance process, have been largely eliminated.
- The tedious process of getting cargo manifests to Customs and other relevant agencies was eliminated as cargo manifests are submitted in advance electronically.

Thirteen manual processes within the Customs “Long Room” that used to take approximately two to three days to undertake have all been eliminated.

### **b. Faster clearance times**

Significant reduction in time for clearance of goods at the main port of Tema, which used to take on average two weeks, now takes an average of two to three days. Clearances through the second port of Takoradi are almost done in a day, whilst clearances through the Airport are averaging two to four hours, unlike the two to three days average before the implementation of the project. Similarly, at the land



borders, consignments are being processed within a matter of hours, an improvement upon the whole day (or longer) that clearance took prior to the implementation of the project. These clearance times have been possible because of the usage of the risk selectivity features of the system, the selective targeting of consignments as well as the possibilities for pre-arrival submission of declarations.

The system's risk selectivity features were varied and configured by a range of parameters determined by a high level Risk Management Committee, which was headed by a Deputy Commissioner of CEPS. Among the parameters used were intelligence from other customs administrations or security agencies, risk profiles (of importers/exporters, agents, vessels, country of shipment, etc.) based upon previous transactions or overall tax records. Also the pursuit of the "Single Window" concept through the issuance of permits, licenses and exemptions electronically through the system ensured that pre-customs documentation requirements were expedited.

Overall these clearance times could have been further reduced if trade operators improved their relatively low-level of compliance, thereby obliging Customs to reduce the relatively high-level of targeted examinations they carry out. Also the acquisition of additional cargo handling equipment and systems could have further enhanced the reduced clearance times that were achieved. Furthermore, a seamless electronic process would best be fostered if all relevant agencies had automated their operational processes. In this way, systems interoperability and interfaces could be pursued, with its possibilities for better exchange of data across the agencies in an expeditious and secured manner for the benefit of stakeholders.

#### **c. Quicker transit with satellite tracking system**

With the introduction of satellite tracking of transit goods, transit consignments are exiting the country quicker than when escorts were being used.

#### **d. Increased revenue collection**

There has been a surge in revenue collection by Customs since the project was implemented. Since 2003, when the project started, there was an average annual growth in revenue of 33% for Tema and 3% for the Kotoka Airport. Total revenue collected by Customs grew by nearly 170% since 2003.

#### **e. Improved competitiveness**

The export competitiveness of the Ghanaian exports also increased due to the expeditious processing of export consignments as well as the electronic issuance of permits and certificates of origin and their transmission to the authorities of the export destination.

#### **f. Other success factors**

Whilst the PPP contributed to the successful implementation of the project, a number of other critical factors have also contributed to the success of the project. They include the following:

- Government support and belief in the project;
- Credible PPPs;
- Development of own infrastructure;
- Phased project implementation;
- Tangible manifestation of modernization/transformation of processes, i.e., more congenial work environment for Customs officers, user perception of an improved customer friendly service, and the benefits of trade facilitation through quick clearance times and quick permit/exemption processing;
- Training, sensitization and extensive capacity building — the sensitization and training of users as well as the provision of extensive capacity building to the various stakeholders were also critical success factors. As at 2007, three thousand users were trained in the usage of various functionalities of the system. Users were also provided with extraneous training (e.g., provision of training in valuation, tax audits, corruption and fraud detection), which was not directly system-related but ensured that usage of the system was simplified and its benefits enhanced. The training program was both localized and external, with the external training used in a number of ways (e.g., as a means of deepening know-how and exposure to best internal practices, and as part of the reward system for performance to promote efficiency). In addition to training, stakeholders were regularly sensitized in new system add-ons, features deployment, and their input was sought in the deployment



process. In so doing, their buy-in was enhanced to push for successful project outcomes;

- Responsiveness to emerging trends/exigencies — the capacity to respond promptly to emerging trends, exigencies and technologies — also served as another critical success factor;
- Sustainable self-financing arrangement to finance the initial cost of the project, the joint venture partners contributed equity capital. To recoup this initial investment and generate adequate revenue for replacing the initial investment, a fee structure (levied on import declarations only) was agreed upon. Through this arrangement, adequate revenue was generated to invest in technology that ensures sustainability of the system.

#### **g. Challenges of implementation**

In spite of the successful implementation of the project, a number of challenges were encountered during the execution. These included the following:

- Resistances at individual and institutional level; and
- Ensuring compliance.

The general level of compliance within the economic environment was also low, and ensuring that a credible level of compliance was maintained among trade operators, especially as attempts were made to remove undue controls and facilitate trade, posed another challenge. There was some fear that letting go of the previous manual controls would lead to undue abuses.

- **Upgrading processes of other agencies:** For the benefits of a seamless clearance process to be fully obtained, there was the need to automate the manual and paper-based operations of other agencies within the clearance process. The development and introduction of such complementary electronic systems for other trade-related agencies posed yet another challenge. With regard to port operations, for instance, the electronic issuance of bills of lading by the shipping lines to consignees or the amendments of bills of lading (e.g., where shipments are made through consolidators) and the related payments would significantly have contributed to expeditious clearances.

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- **Assuring stakeholder confidence:** A further challenge was the need to ensure that the system's integrity was not breached, and to assure and enhance stakeholders' confidence in it by consistently demonstrating through its performance that it was credible and reliable. This was especially critical at a time when some existing manual revenue and security controls were being removed to facilitate trade.
  - **Ensuring security:** At a time when even reputed financial institutions were being hit by a spate of frauds, a major challenge was to ensure that the system, through which almost 60% of the country's tax revenue was collected, was not breached either by intrusion, spam, or various viral infections that hit a number of systems around the world and brought operations to a halt. Public private partnership ensured that the system proved its mettle, and with regular upgrades and application of appropriate security measures, the challenge was addressed to provide assurance about the system's robustness and reliability.

## Kenya

The Time Release Study of Kenya was carried out at sea-ports, land border posts, an inland container depot and international airports between 16th August to September 30th 2004 with funding from the World Bank and technical assistance from the WCO.

The findings of the study were as follows:

- It took two to five days, depending on the point of entry, to clear goods when documents are submitted to customs in good time (documents submitted prior to arrival of ship, air craft or vehicle conveying such goods, i.e., pre-lodgment). On the other hand, it took between five to 15 days to clear goods in cases where documents are submitted to customs late (documents submitted after the arrival of importing vehicle, ship or aircraft, i.e., post-lodgment).
- Delays in clearance were caused mainly by the failure of clearing agents or importers to submit documents in time. For example, it took between three to seven days on average after arrival of the importing ship, aircraft or vehicle for agents or importers to lodge import documents with customs. 74.4 % of documents were post-lodged and only 25.6 % pre-lodged.

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- Intervention by agencies other than customs took between four hours to six days.
    - It took Kenya Port Authority (KPA) three days in Nairobi and two days in Mombasa to process the release order.
    - It took between 15 minutes to three days (depending on point of entry) for goods to be availed to customs for inspection following such a request being made.

The results of the study showed that there was still room for improvement of cargo clearance times. Kenya Revenue Authority (KRA) is currently implementing an ambitious reform and modernization program, incorporating various initiatives to enhance revenue collection, enhance the efficiency and effectiveness of business processes, promote better relationships with stakeholders and develop a professionally competent and motivated staff.

## **Tanzania**

A Time Release Study (TRS) was undertaken in Tanzania for the first time in 2005 by the Tanzanian Revenue Authority with the financial supports provided by the World Bank and the Department for International Development of the United Kingdom as well as the technical support obtained from the WCO. The study examined the clearance process from the time when goods arrived to the time when goods are released in the busiest customs stations in terms of traffic, including sea and lake ports, airports and inland border stations. The study also examined imports, exports and transit through sea, road and air traffic. The study covered 12 customs stations, which account for 94.6% of declarations.

The findings of the TRS showed that:

- Mean time taken from arrival to release was 11 days 9 hours and 3 minutes across seaports, 7 days 19 hours and 13 minutes across airports and 2 days 20 hours and 3 minutes across border customs stations,
- Mean time taken to process documents for transit from arrival to removal was 3 days 19 hours and 55 minutes across seaports; 3 days 15 hours and 21 minutes across airports; and 1 day 2 hours and 36 minutes across border customs stations;
- Mean time taken to process exempted goods from lodgment to release was 7 days 6 hours and 13 minutes across seaports; 2 days 20 hours and 3 minutes across airports; and 3 days 10 hours 1 minute across border customs stations;

- Mean time taken for the examination of goods across seaports, airports and border customs stations that require intervention by OGAs were relatively higher compared to those that do not;
- Mean time taken from lodgment to removal of goods from customs control area was 9 days 2 hours 31 minutes for goods routed to green, 10 days 19 hours for goods routed to yellow ( for scanning); and
- 11 days 10 hours 57 minutes for goods routed to yellow ( cursory inspection), and 12 days 12 hours and 3 minutes for goods routed to red (physical examination).

The study identified that there were delays at all stages of clearance processes administered by Customs, cargo handlers, intervening operations and clearing and forwarding agents.

# CHAPTER THREE

## CUSTOMS CLEARANCE IN ETHIOPIA

### 3.1 Constraints in the Clearance of Goods

The volume of export of Ethiopia was 1,626.9 million tons and its import 7051.5 million tons in 2010, according to the Ethiopian Revenue and Customs Authority. The UN Comtrade database indicates that export proceeds were 1.6 billion USD, while the import bill was about 8 billion USD in 2009.

The above figures indicate that the trade turnover of the country is low. As can be seen in the following table, the per capita export and import levels of Ethiopia are the lowest when compared to those of the countries identified for this study.

**Table 2: Per Capita Import-Export of Selected Countries (in 2009)**

Country	Population (millions)	Exports (millions USD)	Imports (millions USD)	Per Capita Export in USD	Per Capita Import in USD
Australia	21.3	153,884	158,941	7,225	7,462
Kenya	39.8	4,463	10,207	112	256
Jordan	6.3	6,365.7	14,075.3	1,010	2,234
Singapore	5.08 (in 2010)	269,832	245,785	53,117	48,383
Tanzania	43.7	2,982.4	6,530.8	68	149
<b>Ethiopia</b>	<b>82.8</b>	<b>1,618.2</b>	<b>7,973.9</b>	<b>20</b>	<b>96</b>
Uganda	32.7	1,468.5	4,255.7	45	130
Zambia	12.9	4,312.1	3,792.6	334	294

**Source:** UN Comtrade Database, UN Statistics Division.

Even at this low level of trade turnover, there are constraints associated with border clearance procedures in Ethiopia. A World Bank report<sup>5</sup> consolidates this view by indicating that there are constraints in the clearance of goods in Ethiopia. Unless these constraints are resolved in good time, the problems, besides making “doing current business” difficult, are likely to snowball and further reduce the already low level of trade turnover, thus frustrating the growth of the national economy.

<sup>5</sup> WB; Doing Business 2010, Ethiopia

The World Bank breaks down trade costs into three general categories, namely, the number of documents that must be processed to ship goods out of or into the country, the time it takes to carry out these procedures and to move goods to the nearest port, and the official fees and commercial costs involved in getting goods from the factory door to customers in other countries. On these bases, the World Bank reported that Ethiopia stood 159<sup>th</sup> in the world out of the 183 countries surveyed in the ease of doing business in 2010. The highlights of the World Bank Report are shown in the table below.

**Table 3: Trading across Borders**

Trading across Borders Data	Doing Business		
	2008	2009	2010
Rank	-	155	159
Cost to Export (US\$ per 20ft Container)	1617	2087	1940
Cost to Import (US\$ per 20ft Container)	2793	2893	2993
Number of Documents to Export	8	8	8
Number of Documents to Import	8	8	8
Time to Export (days)	46	46	49
Time to Import (days)	42	42	45

**Source:** *WB 2010, “Doing Business 2010, Ethiopia”*

### 3.2 BPR Study to Tackle the Constraints

Therefore, in recognition of the fast changing need of its customers and the international situation, the Ethiopian Revenue and Customs Authority (ERCA), which came into existence on 14 July 2008 by the merger of the Ministry of Revenue, Ethiopian Customs Authority and the Federal Inland Revenue Authority, undertook a Business Process Re-engineering (BPR) study in November 2007. According to the Authority, the need for the study emanated from its inability to:

- Collect customs revenue effectively;
- Meet requirements of trade and investment;
- Effectively control the import and export of prohibited and restricted goods;
- Protect legal traders from illicit trade;
- Record and maintain reliable trade statistics; and
- Protect the system from vulnerability to corrupt practices.

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The problems recognized by the BPR study with regard to customs clearance procedures in Ethiopia included the following:

- a) As most of the customs procedures were designed for control purposes they were cumbersome and did not lend themselves for prompt clearance procedures;
- b) Similar activities were carried out by two or more customs personnel;
- c) Lengthy to-and-fro movements of documents between customs personnel;
- d) Lack of clear delegation of authority for decision-making;
- e) Lengthy decision-making processes involving higher echelons of authority; and
- f) Lack of transparency in accountability.

The BPR document also indicated that import goods liable for the payment of duties and taxes had to undergo between 24 and 78 work processes, involved between 10 and 55 customs personnel, required the decisions of between eight and 14 hierarchies, required between 8 and 13 preconditions and required between 7 and 15 to and fro movements of documents. These processes were estimated to take between one hour and 27 minutes and three hours and 47 minutes. This activity alone might, however, require up to 12 hours if the cargo was liable for detailed physical examination.

The BPR study of ERCA also identified a number of problems in relation to export. Among them were:

- Policy and legal issues such as domestic taxation of export goods at many check- points, the proliferation of illegal trade associated with border trade, the construction of warehouses by traders in border areas which facilitate contraband trade, etc;
- Problems associated with lack of authority relating to jurisdictions between Customs, national security organs and the Quality and Standards Authority of Ethiopia;
- Lack of standard working procedures in all customs stations which entailed increasing number of complaints and applications for solutions;
- Integrity problems, including corruption by way of kick-back, permitting the exportation of more than what has been authorized by the relevant authorities and the lack of respect for working hours by customs personnel, etc.

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By way of resolving the forgoing problems, the following programs and targets were recommended by the BPR study for implementation.

1. Establish a customs procedure that would be implemented by all customs stations and satisfy 85% of importers.
2. Clear 80% of all import declarations on the bases of the following timeframe:
  - Reduce clearance time of suspected goods and personal effect of air passengers subject to taxation from the current 45 minutes to an average of 13 minutes;
  - Lower clearance time of air cargo subject to taxation from the current six hours and 45 minutes to an average of 13 minutes;
  - An average of 40 minutes for a cargo to be cleared immediately;
  - Two hours for document scrutiny; and
  - Four hours for detailed physical examination, including document scrutiny;
  - Decrease clearance time of a sea or land cargo from the current 14 hours/two days to an average of 40 minutes for a cargo to be cleared immediately;
  - Reduce clearance time of suspected postal parcels subject to taxation from the current 30 minutes to an average of 15 minutes;
  - Clear all export cargoes within 20 minutes, provided the required documents are complete.

### **3.3 Licensing and Transit Procedures in Ethiopia**

#### **3.3.1 Licensing Procedures**

Pursuant to Proclamation No. 67/1997 (Amendment Proclamation No. 376/2003) and the Council of Ministers Regulations No. 13/1997 (Amendment Regulation No. 95/2003) registered importers are required to obtain license from the Ministry of Trade and Industry<sup>6</sup> (MoTI).

The import of certain goods and materials are regulated by line ministries and authorities. In accordance with this, there are offices, which administer the imports of different products.

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<sup>6</sup> Memorandum on the Foreign Trade Regime of Ethiopia submitted to the WTO Secretariat



The products that need authorization and the relevant institutions that issue the necessary permits are indicated here below:

- **Ethiopian Road Transport Authority:** For imports of motor vehicles and transport machinery.
- **Ethiopian Food, Medicine and Health Care Administration and Control Authority (EFMH):** For human and animal drugs and medical equipment.
- **Ministry of Agriculture:** For pesticides, seeds, plants and other articles which are liable to be infested or infected with plant pests, live animals and animal products.
- **Quality and Standards Authority of Ethiopia** provides import accreditation by inspecting and certifying products for which relevant Ethiopian standards have been established and are made mandatory under the Council of Ministers Regulation No. 13/1990.
- **National Bank of Ethiopia** issues import/export permits involving foreign exchange.

The following goods are exclusively imported by the following institutions:

- Communication apparatus and similar equipment like radio receivers, by the **Ethiopian Telecommunications Corporation**;
- Gaming machines, lottery tickets and games, by the **National Lottery Administration**;
- Armaments, dynamites and firearms, by the **national security organs** ;
- Cigarettes by the **Ethiopian Tobacco Enterprise**; and,
- Petroleum, by the **Ethiopian Petroleum Enterprise**.

### 3.3.2 Transit Procedures

Typically, transit commences at ports of entry. As Ethiopia is, however, a landlocked country commencing transit operations from destination customs stations (for instance, from Kaliti in Addis Ababa) has become necessary. Import operations commence by submitting complete basic import documents prepared by declarants and lodged with the web site of ERCA<sup>7</sup>.

The different bodies involved in the transit process, and their functions are listed below.

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<sup>7</sup> ERCA's BPR document

## **1. Trucker/Agent**

- a) Comes up with a comprehensive or particular operation customs bond/insurance bond valid for one year from a local insurance company or a bank.
- b) Delivers documents, including the customs bond necessary for a transit permit, via Remote DTI or Service DTI, including the transit declarations specifying the destination customs station.

## **2. Destination Customs Station**

- a) Provides transit permit after verifying the documents required for transit permit.
- b) Records the declaration in a form and notifies the ERCA Coordinating Office in Djibouti by fax or email.
- c) Transmits the declaration issued with a transit permit and customs bond to the bond officer.
- d) Verifies the authenticity of the customs bond by communicating with the dispatch officer of the insurance company through email or fax.

## **3. Importer/ Agent/ Declarant**

- a) Transmits the declaration issued with a transit permit to own agent in Djibouti.
- b) Completes port and transit operations procedures at Djibouti customs territory.
- c) Submits the declaration provided with a transit permit (IM 8 declaration) along with other transit documents to ERCA's coordinating office in Djibouti.

## **4. ERCA's Coordinating Office in Djibouti**

- a) Maintains a record of the fax or email transmissions received from the destination customs stations in Ethiopia.
- b) Verifies the IM 8 declaration and the transit documents of the agent against the email or fax transmissions of the destination customs stations.
- c) Inspects the contents of the cargo against the documents (if necessary), seals the cargo, registers the seal number and the plate number of the conveyance vehicle, and provides the documents to the agent of the importer in Djibouti.

## **5. Agent of the Importer in Djibouti**

- a) Submits the transit documents to the valuation and document inspection officer.
- b) Closes the way bill, registers the seal number and the necessary transit documents and provides the trucker with a road transport manifest via the agent of the importer in Djibouti.

## **6. Trucker**

The trucker submits the first copy of the transit document to the exit gate of the Djibouti customs territory.

## **7. Exit Gate of Djibouti Customs Territory**

After verifying that the cargo is intact, and recording the transit declaration, permits the truck to proceed to Ethiopia.

## **8. ERCA Entry Gate (currently via Galafi)**

- a) The trucker submits the sealed transit documents provided to him by ERCA's Coordinating Office in Djibouti to the inspection desk at Galafi.
- b) The customs officer receives the transit documents from the trucker and verifies that the seal is intact and the cargo is as was loaded at the port of entry. If the cargo has not been tampered with the customs officer passes over the transit documents to the transit officer.
- c) After verifying the authenticity of the transit documents against that of the initially registered information, the transit officer provides a sealed road transport manifest (T1) to the trucker, permitting the importation of the cargo into Ethiopia.

## **9. Mille Cargo Scanning Station**

- a) As soon as the cargo arrives at Mille, the customs officer receives the T1 from the trucker and verifies that the seal is intact.
- b) The customs officer scans the cargo on the basis of the ASYCUDA<sup>++</sup> Risk Band assessment and registers the results of the scanning on the Inspection Act and transmits the findings, along with the image of the cargo, to the destination customs station electronically for final decision.

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- c) The customs officer affixes the seal of the Mille Customs Station on the T1 and permits the cargo to proceed to the destination customs station.

## 10. Checking Stations

- a) When the cargo arrives, the customs inspector receives the T1 from the trucker, verifies that the cargo is as was loaded at the port of entry, the seal is intact, and passes the document to the transit officer.
- b) The transit officer compares the information registered in the T1 against the information registered in the ASYCUDA<sup>++</sup> System and records additional information.
- c) Affixes the seal of the checking station and permits the cargo to proceed to the destination customs station.

## 11. Destination Transit Procedures

- a) Upon arrival of the cargo, the customs inspector receives the T1 from the trucker, verifies that the cargo is as was loaded at the port of entry, the seal is intact, and passes the document to the transit officer.
- b) The transit officer compares the information registered in the T1 against the information registered in the ASYCUDA<sup>++</sup> System and closes the automated transit manifest.
- c) The transit officer permits the temporary warehousing of the cargo until final procedures are completed for customs clearance.
- d) The transit officer provides receipt to the trucker after assigning a parking lot for the cargo truck or a warehouse for the cargo.

In terms of warehouse capacity, there are two dry ports at the following spots, besides the twelve warehouses at the Addis Ababa Commercial Goods Facilitation Branch Office at Kaliti.

- The depot at Semera which is used for public imports; and
- The Modjo Dry Port that has a container depot and warehouses, and uses multi-modal transport. It is used for public imports.

### 3.4 Customs Procedures

The standard processes for the clearance of, for instance, imported goods, include the following steps:

- a) Declarant states his intent for import by completing an Import Declaration Form (IDF) on the Customs Server;
- b) Declarant lodges IDF with supporting documents. Pursuant to Proclamation Number 622/2009, the following original supporting documents shall be supplied to Customs:
  - Transportation document;
  - Invoice;
  - Bank Permit;
  - Packing list;
  - Certificate of Origin; and
  - Other relevant certificates/permits from relevant regulatory bodies.
- c) The customs station (for instance Kaliti) captures the information on ASYCUDA<sup>++</sup> Plus which registers the documents and classifies them on the basis of risks into Green, Yellow and Red categories. Under the risk management system of ERCA, imported goods that fall under Green are low risk, Yellow and Red categories medium and high risk goods, respectively<sup>8</sup>;
- d) After inspection, classification and valuation is completed, customs issues the declarant with an assessment note;
- e) The declarant effects payment through banks in favor of customs on the basis of the assessment note;
- f) After the payment of the assessed duties and taxes, the customs transit unit checks the payment and issues a transit permit which is then delivered to Djibouti Customs;
- g) The transit officer retains copies of the packing list and bill of lading and provides the transitor with the remaining documents, which are kept by the transitor until the goods arrive;
- h) Once the goods arrive, the transitor presents the documents under his custody to the Djibouti customs officer. The Djibouti Customs Officer provides the transitor with a dispatch paper;
- i) The transitor presents his import documents and the dispatch paper to the Transit Unit of Ethiopian Customs at Galafi, the customs office at the frontier between Djibouti and Ethiopia.

<sup>8</sup> A declaration may be rejected or queried at various checking steps if an officer suspects or knows something is wrong with any declared data.

### **3.4.1 Clearance Process**

There is a computerized system for following up the performance of each and every customs employee. The number of declarations dealt with by each employee is recorded. If any complaint is lodged against any employee, that employee is recorded. Declarations are traceable electronically. If declarants are not provided with satisfactory services by customs, a system has been instituted by customs for the lodgment of complaints.

### **3.4.2 Conditions for Release**

#### **Consignments Routed to the Green Channel**

Consignments routed to the Green channel are low risk imported goods. In order to be categorized as Green, the imported products would have to comply with the following conditions:

- The cargo seal should be intact;
- There should not be discrepancy between the declaration and the physically inspected goods;
- The cargo has to be homogenous or the nature of the products is such that they do not involve spare parts, electronic products, etc.,
- The track record of the importer and/or transitor is clean in the profile records of ERCA.

Such products are released for free circulation without having to be unloaded or warehoused. On the basis of the data obtained from ERCA head office, the proportion of Green channel goods in total imports in 2010 was 7.6 % only.

#### **Consignments Routed to the Yellow Channel**

The consignments that are routed to the Yellow channel are medium risk goods. Such goods are handed over for document scrutiny, which might clear the goods for duty and tax re-assessment and release of goods. However, if physical examination is deemed necessary the processes applicable to the Red channel shall be applicable to the Yellow category goods imports. If physical examination is not required, the documents are passed over to the tax re-assessment unit to determine whether or not there is a difference between the duty and taxes testified by the declarant and the actual duties and taxes that need to be paid on the bases of examination of the documents.

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If there is no difference between the declared and actual assessment of duties and taxes, the goods are released for free circulation after the full payment of duties and taxes. However, if there is a difference between the declared and actual assessment of duties and taxes, the documents will be passed over to Customs Procedures Variation Re-assessment Unit.

According to the data obtained from ERCA Head Office, the proportion of Yellow channel goods in total imports in 2010 was 32.1 %.

### **Consignments Routed to the Red Channel**

A declaration carrying heterogeneous imported products such as electronics products, spare parts, garments from different origins, grocery items or imports by individuals or companies who do not have profiles with customs are categorized as Red. Consignments that are routed to the Red channel are subject to 100 % document and physical examination and have to be warehoused in customs designated bonded warehouses. Red category imported products are directed to particular assessors.

The BPR standard for such an assessment is eight hours. If there is no difference between document and physical examination, the goods are sent for product classification and valuation. A report on the findings of the physical examination of the cargo is prepared and passed over to the Document Verification Unit. If there is no difference between the declared and actual assessment of duties and taxes, the goods are released for free circulation after full payment of duties and taxes. However, if there is a discrepancy between documents and physical examination, the documents are forwarded to Customs Procedures Variation Re-assessment Unit.

The decision of this Unit is expected to be completed within three days. If the importer agrees with the decision, the issue is settled; but if the declarant does not accept the decision of the unit, he/she/it is sued.

As container shades are limited, inspection of containers in the open air may be difficult due to weather i.e., heat of the sun or rain. This is perhaps one reason for delay in release time. Otherwise such processes do not take more than two days on the outside. If delays are created at this stage, it is because of the failure of transitors to submit complete documents. Transitors sometimes delay submission of complete documents up to three days because of negligence or handling of too many cases. Yet when asked by importers on the reasons for delay, the transitors externalize the delay on customs. Excessive delays in the clearance of goods from customs stations result in the

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disposal of imported products. According to the new Customs Proclamation No. 622/2009, depending on whether they come by air, sea or land products need to be cleared from customs stations within 30 to 60 days. Beyond that, it is stipulated that ERCA shall dispose of the cargo as abandoned. The requirement to declare goods to Customs is stipulated in detail in Proclamation No. 622/2009.

The data obtained from the ERCA head office shows that the proportion of Red channel goods in total imports in 2010 was 60.3

### **Removal of Goods**

After duties and taxes are paid, and registered by the customs station, release notes are issued to the importer /agent. The declarant/agent presents the release note to the bonded warehouse keeper. The goods are then authorized to exit from the warehouse and handed over to the owner. The goods are registered on the warehouse out-ledger. Goods are deemed to be released after completing this cycle.



# CHAPTER FOUR

## FINDINGS OF THE STUDY

### 4.1 The Problems and Constraints of Border Clearance

#### 4.1.1 Data Analysis

This study made use of statistical data obtained from ERCA, in particular the data of 2010 for the purposes of this analysis. The findings are the following.

The statistical information of ERCA on the external trade of Ethiopia include customs clearing station, registration date, assessment date, receipt date, type of import (for home use, temporary importation, re-importation, etc), mode of transportation, HS code and commodity description, country of origin and consignment, quantity, value, taxes; exit date, etc.

#### Exports

The total number of exported line items in 2010 was 188,548. In order to compute clearance time, the study intended to deduct registration date from exit date<sup>9</sup>. But the export statistics made available to the consultant did not include exit dates. Hence, clearance time for export could not be established from this source. As export business is a priority activity in Ethiopia, customs procedures do not take more than two days on the outside, as long as complete documents are submitted. Other regulatory bodies, such as MoA, banks, etc., accord priority to export products.

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<sup>9</sup> According to WCO guidelines for TRS, clearance time is computed by comparing release and clearance dates against registration dates. In order to assess clearance time on the basis of this guideline, this study intended to deduct registration dates of import declarations from the respective exit dates. The differences were staggeringly high and questionable. Hence, this study opted to deduct receipt dates from exit dates.

**Table 4: Total Number of Export Items in Ethiopia by Customs Station (2010)**

Exit Customs Station	Number of Export Items	Share in Total Exports (%)
Bole Cargo Terminal	43,360	23
Kaliti (Commercial Goods Branch)	43	0
Kaliti (Export & Other Goods Branch)	12,299	7
Diredawa (La Gare & Airport Customs)	90,961	48
Adama Revenue & Customs Office	4,353	2
Others	37,532	20
Total	188,548	100

Source: Computed from Customs Statistics of ERCA

The top five exit customs stations enumerated above together handle 80 % of the total Ethiopian export items.

## Imports

The total number of imported items in 2010 was 833,716. Out of these, 813,624 line items (97.6%) were handled by the above top five customs stations. In order to compute clearance time, this study opted to deduct receipt date from exit date. Of these import items, the records of many line items (6,261 import line items at Kaliti Commercial Goods Facilitation Branch Office) were not reliable because their exit dates preceded their respective receipt dates. Similarly, there are line items with no records of receipt date.

Taking total imports of the five stations as total population, we can observe that:

- Kaliti Commercial Goods Branch Office accounts for about 42.5%, Kaliti Export & Other Goods Branch Office accounts for about 30%, Adama Branch for about 27%, while Diredawa and Bole Cargo Terminal account for less than one percent of total imports.
- In all stations under consideration, 118,869 (14.6%) of total imports were cleared in less than a day, 46,066 items (5.7%) in one day, 54,348 items (6.7%) in two days, 40,783 items (5%) in three days, 9,691 items (1.2%) in four days, 2,616 items (0.3%) in five days.

Accordingly, the results of the analysis indicate that:

- In total, line items that were cleared in less than 5 days constituted 272,373 (33.5%);
- 541,251 (66.5%) required more than 6 days for clearance. Within this category, 180,805 (22.2%) required up to 20 days for clearance; 75,904 (16.4%) items required up to 2 months and 50,675 (6.2%) required more than two months for clearance;
- Considering the major custom stations in Ethiopia that handle more than 97% of the total imports (Kaliti, Adama, Diredawa and Bole Cargo Terminal), the national average clearance time is 13.8 days.

**Table 5: National Average Border Clearance Time (in Days)**

Customs Station	Number of import Items Handled (2010)	Average Clearance Time (Weighted)
Kaliti Commercial Goods	346,121	11.8
Kaliti Export & Other Goods	243,629	13
Diredawa (La Gare & Airport Customs)	4,231	7.6
Adama	218,983	18
Bole Cargo Terminal	309	6
<b>Total</b>	<b>813,273</b>	<b>13.8</b>

Source: Own Computation from ERCA's raw data

Considering the average clearance time station by station, the following observations were made:

### 1. Kaliti Commercial Goods Facilitation Branch

- The total number of import items at this station in 2010 was 346,121 (Table 6).
- Line items that were cleared in less than five days constituted 183,412 (53%).
- 162,709 (47%) required more than six days. Within this category, 17,773 (5.1%) required between six to 10 days for clearance; 100,098 (29%) items required between 11 to 30 days, and 41,260 (12%) required between 31 and 60 days. The balance 3,188 (0.9%) required more than two months for clearances.
- The weighted average clearance time for this station was 11.8 days.

**Table 6: Import Clearance Time at the Kaliti Commercial Goods Facilitation Branch Office**

Duration of Clearance Time in Days	Kaliti CGFB		
	Number of items	% of total	Cumulative
Less than a day	106,817	30.9	30.9
1	45,439	13.1	44.0
2	17,266	5.0	49.0
3	3,863	1.1	50.1
4	8,989	2.6	52.7
5	1,428	0.4	53.1
6 up to 10	17,773	5.1	58.3
11 up to 20	63,186	18.3	76.5
21-30	36,912	10.7	87.2
31-40	26,996	7.8	95.0
41-50	10,689	3.1	98.1
51-60	3,575	1.0	99.1
>60	3,188	0.9	
Total	346,121	100	

Source: Own Computation from ERCA's raw data

## 2. Kaliti Export and Other Goods Branch

- The total number of import items at this branch was 243,629 in 2010 (Table 7). Only nine import items were cleared in four or less days, 263 items (0.1% were cleared within five days.
- In total, the line items cleared in less than five days constituted 272 (0.1%).
- 243,357 (99.9%) required more than six days for clearance. Within this category, 3,156 (1.3%) required between six to 10 days for clearance; 138,831 (57%) items between 11 to 30 days; 66,927(27.5%) required between 31 and 60 days.
- The balance 34,443 (14.1%) required more than two months for clearance.
- The weighted average clearance time at this branch in 2010 was 13 days.

**Table 7: Import Clearance Time at Kaliti Export and Other Goods Branch Office**

Duration of Clearance Time in Days	Kaliti EOG		
	Number of items	% of total	Cumulative
Less than a day		0	
1	5	0	0.0
2		0	0.0
3	2	0	0.0
4	2	0	0.0
5	263	0.1	0.1
6 up to 10	3,156	1.3	1.4
11 up to 20	68,336	28	29.4
21-30	70,495	28.9	58.3
31-40	20,523	8.4	66.7
41-50	30,861	12.7	79.4
51-60	15,543	6.4	85.8
>60	34,443	14.1	99.9
Total	243,629	100	

Source: Own Computation from ERCA's raw data

### 3. Bole Cargo Terminal Branch

The data obtained from this station covered the period from October to December 2010, and January 2011. The total number of import items was 309. Line items that were cleared within five days constituted 259 (84%); 50 (16%) required more than six days for clearance. The weighted average clearance time at this station in 2010 was six days (See Table 8 for details).

**Table 8: Import Clearance Time at the Addis Ababa Airport Revenue and Customs Branch Office(Bole)**

Duration of Clearance Time in Days	Bole Cargo Terminal		
	Number of items	%age of total	Cumulative
Less than a day	1	0.3	0.3
4	2	0.6	1
5	256	82.8	83.8
6	1	0.3	84.1
7	20	6.5	90.6
9	2	0.6	91.3
10	2	0.6	91.9
11	1	0.3	92.2
16	24	7.8	100
Total	309	100	

Source: Own Computation from ERCA's raw data

#### 4. Diredawa (La Gare) Customs Branch Office

The total number of import items at this station in 2010 was 4,231.

- In total, line items that were cleared within five days added up to 2,650 (62.6%).
- 1,581 (37%) required more than six days for clearance. The weighted average clearance time for Diredawa (La Gare) (La Gare) was 7.6 days (See Table 9 below).

**Table 9: Import Clearance Time at the Diredawa La Gare Customs Branch Office**

Duration of Clearance Time in Days	Diredawa		
	Number of items	% of total	Cumulative
Less than a day	1,933	45.7	45.7
1	139	3.3	49.0
2	7	0.2	49.2
3	8	0.2	49.4
4	449	10.6	60.0
5	114	2.7	62.7
6 up to 10	342	8.1	70.8
11 up to 20	802	19	89.8
21-30	260	6.1	95.9
31-40	140	3.3	99.2
41-50	4	0.1	99.3
51-60	23	0.5	99.8
>60	10	0.2	100.0
Total	4,231	100	

Source: Own Computation from ERCA's raw data

## 5. Adama Revenue and Customs Branch Office

The total number of import items at this branch in 2010 was 218,983.

- In total, line items that were cleared within five days added up to 85,618 (39%).
- 133,365 (61%) required more than six days for clearance. The weighted average clearance time for the customs station at this branch was 18 days (See Table 10 below)

**Table 10: Import Clearance Time at Adama Revenue and Customs Branch Office**

Duration of Clearance Time in Days	Adama		
	Number of items	% of total	Cumulative
Less than a day	10,119	4.6	4.6
1	479	0.2	4.8
2	37,070	16.9	21.7
3	36,904	16.9	38.6
4	244	0.1	38.7
5	802	0.4	39.1
6 up to 10	16,287	7.4	46.5
11 up to 20	48,134	22	68.5
21-30	30,364	13.9	82.4
31-40	16,631	7.6	90.0
41-50	5,200	2.4	92.4
51-60	3,715	1.7	94.1
>60	13,034	6	100.1
Total	218,983	100	

Source: Own Computation from ERCA's raw data

#### 4.1.2 Sources of Clearance Delay

The sources of delay for the release of goods at the various customs stations are outlined hereunder.

#### With Regard to Ocean Cargo

##### a) During Transit

- i. The import documents of goods are not delivered to the respective banks upon the arrival of goods at Djibouti. This creates delays at the port as the bank process should be completed. Stevedores at the port of Djibouti reportedly work at will and the maximum number of hours they work in a day is only about five hours. Even these hours are not optimally utilized for loading vehicles. In addition, the second half of Thursdays and all of Fridays are not workdays in Djibouti. Hence, cargoes that arrive on these days are not unloaded from the vessel. Import cargoes are sometimes delayed in Djibouti for various reasons. The stevedores do not respect the “first-come first-served” principle, probably for vested interests. As a result of this and other issues, there are circumstances wherein trucks are



forced to stay up to four days in Djibouti before import cargoes are loaded.

- ii.** Truckers departing from Galafi (the Ethiopian frontier customs post) are expected to reach the Kaliti customs clearance station in Ethiopia within three days. But delays occur along the route because of the following reasons:
  - Passing through the scanning machine at Mille which takes a queue of one day; and
  - The inspection of trucks with import loads at many checkpoints along the route. An import load from Djibouti to, for instance, Addis Ababa has to pass through the (Galafi, Mille, Awash, Kaliti checkpoints.
- iii.** As soon as a truck arrives at a customs branch office, Kaliti Commercial Goods Branch Office, for example, the trucker presents his transit documents to the Transit Unit and the fate of the import cargoes is as follows:
  - If the truck carries homogenous products with no discrepancy between the load and what is stated in the declaration and the packing list, the goods are inspected, and cleared outright, and the truck proceeds to its intended destination.
  - If the declaration carries heterogeneous products or if there is a discrepancy between the documents and the products, etc., the customs transitor directs the cargo to be warehoused, and the representative of COMET S.C determines the warehouse where the goods should be unloaded. There are only twelve warehouses at this station that handles such a huge trade volume. The goods are unloaded immediately if there is space for unloading, and made ready for physical examination by customs officers. Depending on the risk magnitude, such physical examinations range from sample cursory checks for “Yellow” category cargo to 100% physical examination for “Red” category cargo. This is one major source of delay. Because of the limited availability of bonded warehouses at Kaliti, some trucks are stranded for up to seven days with their loads, until warehouse space is available.
- iv.** Similarly, the Bahir Dar Revenue and Customs Branch Office at Metema/ Gendawuha has neither a compound nor a warehouse for clearance procedures, and customs procedures are undertaken on the highway leading to the Sudan. This state of affairs, in addition to its inconvenience for truckers and customs officers, lends itself to unreliability of physical examination of import/export goods as well as to pilferage and theft.

## b) At Customs Stations<sup>10</sup>

- i. **Incomplete Documentation:** One of the major factors contributing to delays in the clearance of ocean borne cargo is incomplete documentation. Some importers fail to produce permits or certificates from the relevant regulatory bodies such as the QSAE (to ensure that standard products are being imported), the ETC (for communication equipment), the Ethiopian Food, Medicine and Health care Administration and Control Authority (EFMH) (for pharmaceuticals and medical equipment imported by the private sector as well as by MoH through purchases or donations), etc.
- ii. **Negligence:** Submission of incomplete documents to customs by transitors who reportedly delay documents up to three days because of negligence.
- iii. **Duplication of Efforts:** There seems to be duplication of efforts by the MoA, QSAE, and EFMH with respect to permit requirements. In the case of sesame seed export, for instance, MoA provides Sanitary and Phyto-Sanitary (SPS) certificates, MoTI (through the QSAE) is expected to provide clearance for technical barriers to trade (TBT), EFMH is involved in the provision of “release permits” as well as “Port Entry-Exit Inspection Result Form/Permit”. Such duplication is cumbersome and excessively costly in terms of time, opportunity cost, money, and the number of documents involved for any exporter/importer.
- iv. **Contents of Import Declarations:** The inclusion of heterogeneous products in a single import declaration that requires various permits/certificate from different regulatory bodies, is cumbersome, time-consuming and costly as well as a source of delay. Furthermore, such products will have to be warehoused for physical inspection or examination, thus compounding the delay in clearance time.

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<sup>10</sup> *Dry Port Services are established at Modjo and Semera in order to provide multimodal transport services, and also minimize delays in release and clearance of import cargo. The Dry Port at Modjo is now operational. During the fourth quarter of the Ethiopian Fiscal year 2001E.C (2008/2009), when the Dry Port Service Enterprise became operational at Modjo, 1,031 TEU were handled by the Enterprise. During the following year, i.e., 2002 E.C, 12,337 TEU, 7,219 ton bulk cargo and 670 vehicles were handled by the Dry Port Enterprise. And in 2003 E.C, 4,682 TEU, 1,105 TEU bulk cargo, 305 vehicles and 3,146 empty containers. So far the Dry Port has been providing multimodal transport services for public imports only. Reportedly, the average clearance time at the Dry Port at Modjo is about five days. This is indicative of the potential benefits of the implementation of multimodal transport services. But at this point in time, the clearance services being provided by the dry port is limited when compared to the total imports of the country.*

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- v. **Discrepancies:** Errors created by declarants with regard to entries in import documents. Such errors may include discrepancies in what is stated in the declaration and the product examined physically.
  - vi. **Product Classification:** Reasons for delay in clearance time of export/import products include cases where the import products may be new and thus requiring interpretation that is likely to demand the decision of MoFED. Similarly, some imports related to investments may be subjected to interpretation, in which case delays are created until decisions are arrived at. In Ethiopia, the HS tariff headings are limited to eight digits only and are generic. This is coupled with the lack of adequate number of competent customs officers for product classification and data entry.
  - vii. **Product Valuation:** Valuation of new and heterogeneous products, whose HS codes are not easily referable in the Ethiopian customs tariff book, or products imported by importers with no track records, or products suspected of under invoicing may not be cleared in a short period of time. About 30 % of total import declarations face valuation problems.
  - viii. **Lack of Adequate Technical Competence of Customs Officers:** The problem of product classification is related to the technical competence of customs officers who are few in number and that reportedly cannot readily and automatically classify goods. This is one other source of significant delay. The major constraint in customs is the lack of technical knowledge and professionalism of customs employees deployed to inspect/classify/valuate import products. Because of incompetence, it normally takes up to three days to inspect and classify a container of imported goods. And no other container is opened unless inspection of an opened container is completed. This takes up a lot of time, and results in delays for the release of imported goods. Under such circumstances, it is common for most imported goods to take as much as a month, with inescapable warehouse charges.
  - ix. **High Turnover of Customs officers:** Experienced customs officers are frequently replaced with apprentices. This creates delay in the clearance of goods because the importer has to provide detailed explanations about the imported cargo to newly recruited employees.

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- x. **Lack of Representation:** Absence of fully equipped and manned representation of relevant regulatory bodies such as the QSAE, EFMH, etc., at certain customs clearing stations for the issuance of permits in real time is one other reason for delay in border clearance.
  - xi. **Lack of Adequate Bonded Warehouses and Handling Equipment:** On top of the inadequacy of bonded warehouses at Kaliti, the heavy lifting machinery and equipment for loading and unloading cargo deployed at the bonded warehouse of COMET S.C are inadequate, aged and sources of delay.

### With Regard to Air Cargo

In general, the problems identified for ocean cargo are also appropriate to air cargo. The peculiar problems associated with air-borne cargo include the following:

- i. **Misplacement of Import Consignments:** Ethiopian Airlines claims to deliver personal effects within 72 hours. Since consignments listed in the same import declaration are, however, misplaced in different pallets, the consignments in question cannot be partially cleared. As a result the 72-hour clearance time of the EAL is not observed. When the consignments are eventually located, they are warehoused and the beneficiaries have to pay warehouse charges unfairly.
- ii. **Inability to Appoint Agents for the Clearance of Personal Effects:** Personal effects are delivered in the name of beneficiaries. When beneficiaries try to clear their respective personal effects, delays are created because of incomplete documentation as a result of their unawareness about the need for different permits and/certificates for the clearance and removal of the personal effects. Beneficiaries cannot readily appoint agents who are familiar with clearance procedures and documentary requirements of customs.
- iii. **Lack of Coordination:** There are incidences where customs officers and security officers are not simultaneously available to clear released goods.
- iv. **Non-Responsiveness:** The EAL provides concessional freight charges for Ethiopian export products. The charges are supportive and fair. But the airline does not have many connections, particularly in the Far East where exporters are establishing new customers. The area managers of EAL

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stationed in the Far East do not reportedly respond to e-mail messages. Therefore, important and hard-won markets are being lost because of sluggish responses to enquiries of foreign clients in the Far East.

## With Regard to Land Cargo

The problems identified for ocean cargo are, in general, applicable to land cargo. The peculiar problems associated with land cargo include delays in communications, i.e., delay in information exchange between the branch offices of ERCA at the frontiers and destination customs clearing stations.

## Other Issues

- i. **Need for Submitting Foreign Exchange Proceeds:**<sup>11</sup> Exporters are required to submit foreign exchange proceeds from exports to the NBE within 90 days. Exporters are issued with successive export permits, if they are cleared of such submission of foreign exchange earnings. Otherwise, they are registered as “delinquent” and denied subsequent export permits. This is one of the reasons for delay in carrying out export activities on regular and sustained bases.
- ii. **Delay in the Clearance of Voucher System:** Beneficiaries of the voucher system import their respective inputs under the Voucher System, which permits them to import inputs without the payment of import duties and taxes. In order to be provided with new issues of vouchers and obtain export permits for new shipments, they are obliged to clear their respective accounts with the bank for the previously issued vouchers, i.e., they have to prove that they have conceded foreign exchange proceeds obtained from the respective export products and the utilization of duty-free imports of inputs. Until accounts are settled, documents are not distributed to the respective stakeholders. This process takes a very long time. In order to carry out their activities on regular bases the exporters deposit insurance bond or cash and request Customs to write letters to the NBE,

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<sup>11</sup> In order to be provided with an export or import permit, a foreign trade operator is required to present a trade license, and a TIN Certificate. The NBE has delegated its authority of issuing export/import permits to private and public banks. Such banks report to the NBE about the issuance of permits. The NBE retains the issuance of permits for coffee and gold as they are deemed to be strategic exports. Each exporter is assigned an “Account Number”, a “Permit Number” and a “Running Number” by the respective bank with in order to avoid forgery. Customs is notified about these numbers relating to the exporter in question.

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every three months or so, stating the reason for the delay in the distribution of import documents. On the strength of the letters of Customs, the bank issues new permits. This definitely is time-consuming and creates delays.

- iii. **Shortage of Foreign Exchange:** Because of shortage of foreign exchange, applicants are forced to submit applications to different banks in the hope of obtaining certain amount of foreign exchange. Applications for the request of allocation of foreign exchange are reported to require from two to six months. After the approval of the foreign exchange request application, 3-5 days are required to obtain copy documents from the banks. After obtaining the foreign exchange permit 3-4 days are needed to transmit purchase orders.

## 4.2 Evaluations of the Findings of the Study

Evaluations of the findings of this study are made in light of the report of the World Bank, the BPR undertaken by ERCA, and best practices and views of stakeholders interviewed in Ethiopia.

### 4.2.1 The Findings versus the World Bank Report

As stated above, the WB report indicates that it takes 25 days to prepare documents, nine days for inland transportation and handling, 10 days for customs clearance and technical control, five days for port and terminal handling, which adds up to a total of 49 days for export processing. This figure is 45 days for imports.

Viewed against the foregoing figures, the assessments of this study are as follows.

**The number of days required to prepare documents:** The documents required by customs from an importer to clear a cargo include transportation document (including bill of lading and airway bill issued by the carrier), invoice, packing list and certificate of origin issued by the supplier, bank permits issued by the respective bank (trade licenses and TIN are subsumed in the bank permit), and other relevant certificates/permits from relevant regulatory bodies as deemed necessary by Customs.

- i. **Bill of Lading:** The importer requests freight invoice from Ethiopian Shipping Lines (ESL) and presents it to a bank for opening LC/CAD/TT. The bank provides the importer with a



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bank debit advice. The importer then presents the bank debit advice to the ESL. The ESL provides a receipt to the importer for the bill of lading. This is the normal procedure employed by the ESL. Bills of lading for international ports where ESL calls can be obtained within five days.

There are certain ports wherein the ESL may not accept bulk cargo (i.e., un-containerized cargo). In order to containerize a cargo, the consignment needs to be at least 10,000 to 12,000 kilograms. For different reasons, bulk-purchasing is not widely practiced in Ethiopia, and the origins of imports are diverse. If a waiver is obtained from the ESL, it is possible to nominate a foreign vessel for transporting such imports. But the mode of payment becomes C&F, instead of FOB. Arranging for such a change in bills of lading takes a lot of time and becomes a source of delay.

- ii. **Insurance Bond:** As soon as a pro forma invoice is obtained, an insurance form is completed for insurance bond. This activity takes about two days.
- iii. **Bank Permit:** According to respondents, bank permits are obtained within ten minutes, and as such there is no problem or delay in this regard.
- iv. **Pro forma Invoices, Packing lists and Certificates of Origin:** These documents are transmitted by the foreign supplier to the domestic importer. As such there cannot be delays in this regard.
- v. **Trade Licenses, Investment Certificate and TIN Certificates:** These are permanent documents. The trade licenses and investment certificates may be subject to annual renewals. No delays can be associated with these documents.
- vi. **MoA Pre-Import Permit:** Applicants are required to complete application forms. Such applicants submit the completed forms along with pro forma invoices and are provided with permits valid for three months free of charge. The MoA then provides such applicants with letters/forms for delivery to the NBE for the purpose of foreign exchange allocation for the importation of the item under consideration. The certificate is issued within five to 10 minutes.

Cut flowers producers/exporters are permitted to import fertilizers for own use only, and are not permitted to sell or freely distribute them to farmers. As such, such producers/exporters are provided with permits in real time. The labels

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on the packages of pesticides imports need to be written in English. If they are written in any other language, clearance becomes a problem. Similarly, importation of pesticides without obtaining the completed and approved import forms from MoA may take a very long time for clearance. In general, there is no delay in the issuance of pre-import permits. The problem associated with the issuance of permits from MoA is the fact that such permits are authorized by one person only and that if the individual is not available at any given time delays are created.

- vii. **MoA SPS Certificates:** In order to ensure food safety as well as animal and plant health, the MoA issues SPS certificates for both imports and exports.

**SPS Certificates for Imports:** In order to obtain an SPS certificate for import, an importer needs to comply with the conditions specified in the pre-import permit provided by the MoA. If there is no discrepancy between what is imported and what is stated in the pre-import permit, the SPS certificate is issued between 5-10 minutes as per the arrival of the import item. If there is a discrepancy between what is imported and what is stated in the pre-import permit, the imported item cannot be provided with an SPS certificate.

**SPS Certificate for Export:** Export applicants have to first complete forms. For instance, a warehouse inspection is undertaken for a sesame seed exporter, and if found acceptable, the exporter is provided with an SPS certificate which clears the product for export. If there are no queues, such certificates are issued within 10 to 15 minutes. If the exportable are live animals, there is a need for observation of such animals for at least 21 days in quarantine stations, as this is an international requirement. If the export product under consideration is meat, post-mortem inspection is undertaken in the cold storage facility of the exporter (slaughterhouse). The MoA has representatives at sea ports, air ports, customs stations, as well as quarantine stations for the provision of SPS certificates upon the payment of fees. There are plant and animal quarantine stations at Adama, Diredawa, Metema, Humera, Gondar, etc. However, they lack electronic tele-linkages with the head office in order to facilitate electronic issuance of SPS certificates.



**viii. Permit from the Ethiopian Food, Medicine and Health Care Administration and Control Authority (EFMH):**

The Authority is responsible for the administration and control of exportation and importation of food items, pharmaceutical products, medical equipment, cosmetics, chemicals related to pharmaceuticals and food products, etc. It is also responsible for controlling cross-border transmitted diseases. The Authority has offices at Kaliti, Addis Ababa Postal Service Customs, and is establishing a new office at Mojo Dry Port. Importers are required to complete pre-purchase forms. The accompanying documents required by the Authority include packing list, donation certificate (for drug donation), bill of lading or airway bill, certificate of origin and free distribution certificate (for donations). Upon arrival of the cargo, the importer has to notify the Authority for inspection. If there is no discrepancy between the cargo and the Pre-Purchase Order Form, the cargo is cleared within two to three days.

The Authority requires that narcotics and psychotropic imports are airlifted in order to avoid abuses. If importers make use of other means of conveyance, this may entail a long clearance time until non-abuse is established by the Authority.

- ix. Certificates of Standards:** In order to undertake conformity assessment, the QSAE requires exporters and importers to submit customs declaration and pro forma invoices. In general, testing and certification of export/import products is done within 30 minutes. Problems crop up when the export/import products in question are new. In such cases, samples are analyzed. If the laboratory test requires cultures, it might take up to a week before laboratory test results are obtained.
- x. Certificate of Origin:** The Ethiopian Chamber of Commerce and Sectoral Associations issues Certificate of Origin for exports. This certificate is issued within ten minutes.
- xi. Form “A”:** Issuance of Form A from Customs is automatic, i.e., not more than 10 minutes.

In sum, the total number of days required to prepare (collect) the necessary import border clearance documents from the different regulatory bodies, without considering the to-and-fro of applicants, is eight days and 85 minutes. Compared with the 25 days estimate by the World Bank, there is a difference of about 16 days. A summary of the duration for document preparation is indicated in the table below.

**Table 11: Duration for Border Clearance Document Preparation in Ethiopia**

Type of Document	Issuing Authority	Duration	Remarks
Bill of Lading	ESL	5 days	
Bank Permit	Banks	10 minutes	
Proforma Invoices, Packing lists and Certificate of Origin	-	-	To be transmitted by the foreign supplier
Trade Licenses, Investment Certificate and TIN	MoTI, EIA, ERCA	-	Permanent Documents
MoA Import Permit	MoA	10 minutes	
MoA SPS certificates for imports	MoA	15 minutes	
Permit from EFMH	EFMH	3 days	
Certificates of Standards	QSAE	30 minutes	
Certificate of Origin	ECCSA	10 minutes	
Form "A"	ERCA	10 minutes	
<b>Total</b>		<b>8 days, 85 minutes</b>	

Source: *Own computation*

**The number of days required for inland transportation and handling:**

Truckers are expected to reach Kaliti customs clearing station from Galafi within three days. But delays are created along the route because of the need for scanning at Mille which takes a queue of one day, and the practice of inspecting trucks with import loads at many checkpoints along the route from Djibouti. Delays probably take two more days above that stipulated by Customs for making the journey from Galafi to Addis Ababa. As such, the total number of days for the journey would be five days. The nine days estimate of the World Bank is thus on the high side.

**The number of days required for customs clearance:**

In light of the findings of the data analysis indicated under 4.1.1 the weighted average clearance times at Kaliti and Bole Airport customs and Bole Cargo Terminal (the major customs clearing stations accounting for more than 90% of total imports) are above those estimated by the World Bank (WB). By considering the major customs stations (including Direedawa) that handle more than 97% of the total national imports in Ethiopia, the national average (weighted) border clearance time is 13.8 days. It should be noted here, however, that the WB

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has considered all customs stations and determined 10-day customs clearance duration as a national average. Since practically most imports of Ethiopia are currently being handled by the by the above stations, the customs clearance estimate of the World Bank is on the low side.

In sum, the findings of this study show that (i) document preparation from all regulatory bodies takes 8.06 days; (ii) inland transportation takes about five days; and (iii) clearance time at customs takes 13.8 days. These add up to 26.86 days. As such, the World Bank's estimate of 45 days for import clearance time exceeds that of the study by over 18 days and hence is exaggerated and debatable.

As indicated in Table 5, the World Bank reported that the time required for exporting items from Ethiopia in 2010 was 49 days. Export business is a priority activity in Ethiopia. As such, customs procedures do not take more than two days on the outside as long as complete documents are submitted. Other regulatory bodies such as the MoA, banks, etc., also accord priority to export products by providing their respective services in minutes. This is attested by exporters, transit and forwarding agents/companies and customs personnel. Hence, the 49-day export clearance time reported by the World Bank is exaggerated and needs revisiting.

#### **4.2.2 The Findings vis-a-vis the BPR of ERCA**

ERCA undertook a Business Process Reengineering (BPR) study which set a target of eight hours for import clearance in Ethiopia. (Import clearance time set by the BPR is the time to clear the goods after arrival of the goods at the customs clearing stations assuming every documentary requirement fulfilled by importer). In line with the BPR customs personnel are being provided with training in order to achieve the target. The Ethiopian Government is also taking measures to reduce delays in clearance time by establishing dry ports at Semera and Modjo, and easing the process of implementing multi-modal transport services.

As indicated earlier, the weighted national average clearance time for import goods is 13.8 days. Considered against the best performers (Australia, Japan, Korea and Ghana), this time indicates that there is delay in the clearance of import cargo in Ethiopia. This fact has been recognized by the BPR study of ERCA undertaken in 2007. The reasons for delay in the border clearance of goods in Ethiopia include documentary requirements of many regulatory bodies, constraints during transit and at customs stations. So the target of eight hours set by the BPR of ERCA for import clearance is unrealistic.

### **4.2.3 The Findings vis-à-vis the Best Practices**

Following the series of TRS conducted by the Australian government, significant border clearance time improvements have been made possible largely because of the implementation of pre-lodgment of documents i.e., the submission of documents prior to the arrival of the ships, aircrafts or vehicles conveying the goods,

Similarly, the modernization initiatives implemented by Japan Customs, including computer-based risk management, an automatic clearance system such as Single Window and pre-arrival declaration, as well as the Authorized Economic Operator (AEO) program based on the series of TRS undertaken, have contributed to substantial reductions in border clearance time. Japan Customs works closely with OGAs and the private sector to facilitate procedures and update facilities.

The automated system for processing all customs declarations and payments in Ghana enabled all the various customs operational functions such as manifest transmission and integration, importer/exporter declarations, warehousing, valuation and transit tracking to be carried out. The functionality for electronic issuance of certificates, permits, licenses and exemptions required for customs clearances by regulatory agencies, also played an important part in the importation and exportation of goods in real time.

In general, Ghana, Kenya, Tanzania, Uganda, Japan, Australia and South Korea, etc., undertook TRS and identified their respective constraints regarding border clearance. The best performers, Australia, Japan and South Korea, etc., undertook comprehensive and successive TRS involving all stakeholders in order to ensure that improvements are attained. The countries made sure that all stakeholders are involved so as to ensure that improvements have been registered. Such successful countries implemented full automation of customs procedures, pre-lodgment of documents, embraced the private sector in recognition of its role as an engine of economic growth, etc.

Compared to the experiences of these countries, no TRS, pursuant to the WCO Guidelines, has ever been undertaken in Ethiopia. As indicated earlier, ERCA undertook a BPR study in 2007 as an in-house exercise. The target set by the BPR study for the clearance of import cargo as eight hours is commendable, but ambitious. As broad stakeholder participation is not discernible from the BPR study, the immediate concerns of business operators do not seem to have been reflected

### 4.3 Impact of Clearance Delay on the Cost of Doing Business in Ethiopia

Doing business in Ethiopia is a difficult venture because of the high transaction costs, including high transportation and administrative costs, and the lack of speed in delivery. Being landlocked is normally associated with high logistics costs and many developmental problems. A research conducted by the World Bank and other organizations concluded that transport costs in typical landlocked countries are 50 % higher than in a typical coastal country, while volume of trade is 60 % lower.

Furthermore, there are delays in import clearance procedures in Ethiopia. Such delays entail a series of costs to importers/exporters and to the national economy at large. Some of these costs have cascading effects. Among the costs associated with delays in border clearance in Ethiopia include the following;

- i. There is reportedly a 10 to 12-day free storage in Djibouti. Beyond the free storage period at the Djibouti Customs territory, a 17 US Dollar demurrage is charged per 20ft container for a day. If the container is not cleared within five months, the container-load of the cargo is confiscated by the authorities in Djibouti. This constitutes a total loss to the importer and the country at large.
- ii. Studies indicate that a one-day delay in transit is tantamount to a 0.8 % ad-valorem tariff<sup>12</sup>. As indicated above, the journey from Galafi to Addis Ababa has to be made in three days. But as a result of delays along the route, two more days are spent on travelling, making the total transit time five days. This is the equivalent of 4 % ad-valorem tax on imports, which is directly transferred to end-users, including consumers and export-oriented producers that make use of imported inputs for export production and are as a result rendered uncompetitive because of the delays.
- iii. According to the new Customs proclamation No. 622/2009, which details the requirements for declaring goods to Customs, products need to be cleared from customs stations within 30 to 60 days depending on whether they are imported using air transport

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<sup>12</sup> Dan Ciuriak, June 2010, "Supply and demand side constraints as barriers for Ethiopian exports – policy options," Paper presented at the Fifth Annual National Private Sector Development Conference.

or sea or land transport., Beyond that, it is stipulated that ERCA shall dispose off the cargo as abandoned<sup>13</sup>. Hence, delay in the clearance of import cargo due to different reasons can eventually lead to a total loss to the importer, if such a cargo is disposed off by Customs.

- iv. Lack of just-in-time delivery of goods entails loss of hard-won foreign markets in general. Specifically, the inability of the exporter to plan ahead prevents him from negotiating prices and delivery conditions. As a result, Currency Adjustment Factors (CAF) and Bunkers Adjustment Factors (BAF) would negatively affect the export proceeds of the exporter and result in lose. On the other hand, delay in the delivery of imported cargo entails lack of just-in-time delivery, inability to plan ahead and tying of money in the form of insurance bond, and escalation in the cost of money (interest rate).
- v. Being landlocked and the lack of secure means of transportation have necessitated the need for convoys (costs borne by the government or the importer) during transit, and the many customs checkpoints along the route which stop transit goods and give rise to gratuities, etc.,(borne by the importer).
- vi. In general, the calculation of guarantee is based on the highest rates of duties and other charges applicable to the goods, and depends on customs' classification of the goods. The amount covered by the comprehensive guarantee is 100 % of the reference amount. In case of movement of high-risk goods, customs can be

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<sup>13</sup> Ethiopian Customs Proclamation N° 622/2009 states the following:

Article 28(1): Any goods imported by using sea or land transport and stored in a customs warehouse shall undergo customs formalities and be removed within 60 days from the date of storage.

Article 28(2): Any goods imported by using air transport and stored in a customs warehouse shall undergo customs formalities and be removed within 30 days from the date of storage.

Article 28(3): Any commercial goods stored in custom bonded warehouse shall undergo customs formalities and be removed within four months from the date of storage.

Article 28(4): Any production machinery or inputs to be used for export products and stored in custom bonded warehouse shall undergo customs formalities and be removed within one year from the date of storage.

Article 28(5): Any goods stored in a customs warehouse may not be kept for more than 7 days after the completion of customs formalities.

Article 28(6): Any goods stored in a customs warehouse and not removed within the time specified in sub-article (5) of this Article shall be disposed after being transferred to the Authority's abandoned goods warehouse.

allowed to calculate the guarantee at a percentage that is related to the risk of non-clearance. Customs will only address its claim to the guarantor for the full amount if debtors do not meet their obligations.

- vii. Trucks stranded with their import loads at the bonded warehouses of destination customs stations because of the unavailability of warehouse space are likely to entail the following economic costs:
- Wastage of available transport capacity for as long as the trucks are stranded with their respective loads;
  - High opportunity costs to the truckers who cannot deploy the trucks for alternative trucking businesses;
  - Delay in the clearance of imported goods for many days, implying a 0.8% ad-valorem tariff per day, because the goods cannot be inspected unless they are unloaded;
  - Welfare loss to consumers of imported goods as they are forced to pay higher prices as a result of the delays;
  - Loss of welfare and competitiveness to producers which use imported inputs for export production.





# CHAPTER FIVE

## CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Conclusions

Customs procedures, documentary requirements, inspections as well as general security issues can all severely hamper the timely movement of goods across borders. Examples of bottlenecks and barriers are numerous, and they constitute substantial administrative and financial burdens for any trader and entail substantial economic and social costs to the national economy.

The general findings of this study indicate that there is no delay in export clearance time as long as complete documents are presented, while there is some delay in clearance time for import cargo. However the clearance time for export products could not be quantified as the data made available to the consultant did not include exit time for exports.

In 2010 the national average (weighted) import clearance time at customs was 13.8 days. The findings of the study show that document preparation from all regulatory bodies takes 8.06 days, inland transportation about five days, and the average clearance time at customs 13.8 days, making the total duration 26.86 days.

While the total number of days estimated by the World Bank in 2010 for border clearance of imports into Ethiopia was 45 days, the findings of the study indicate about 27 days. The national weighted average time at customs, according to the study, is 13.8 days, while that of the World Bank is 10 days. The estimate of the World Bank in this regard is on the low side. ERCA's BPR target of 8 hours for clearance of imports is overly ambitious as compared to the actual weighted average national clearance time of 13.8 days. Compared to the best performers, Ethiopia has still a long way to go.

There are various reasons for delays relating to ocean borne, airborne and land cargo in Ethiopia. Rail transportation of import/export trade is currently dysfunctional. The common causes for delays for all the means of export/import conveyance in Ethiopia (except the dysfunctional railway line) are incomplete documentation, negligence of declarants in submitting documents on time, discrepancies between declaration, packing list and cargo, duplication of permit requirements by many of the regulatory bodies, the inclusion

of heterogenous products in a single declaration, product classification and valuation (suspicion of under-invoicing), lack of adequate technical competence of customs officers and the high turnover of customs officers with adequate exposure on product inspection/classification/valuation, and inadequate bonded warehouses as well as handling equipment.

The peculiar additional constraints with respect to airborne cargo include: misplacement of import consignments in different pallets, inability to appoint agents for clearing personal effects, and the poor responsiveness of EAL managers stationed in the Far East where new export markets are being developed by Ethiopian exporters. The peculiar problem associated with land cargo is the delay in communication between ERCA's frontier and destination customs clearing stations.

ERCA is a member of the World Customs Organization (WCO) which has recognized the Revised Kyoto Convention (RKC). RKC deals with key principles of simplified and harmonized customs procedures such as predictability, transparency, due process, maximum use of information technology and modern customs techniques (risk management, pre-arrival information, and Post-Clearance Audit). Customs Proclamation No. 622/2009 also details the need for facilitating and streamlining Ethiopia's international trade. ERCA needs to adhere to the requirements of WCO.

In conclusion, since Ethiopia is an applicant for membership to the WTO, customs procedures, rules and regulations of the country need to be WTO-compatible.

## **5.2 Recommendations**

In light of the foregoing findings, therefore, the following recommendations are submitted for implementation by the respective stakeholders. The immediate implementation of all recommendations is necessary to reduce clearance time. However, since some of the recommendations require substantial financial resources as well as the deployment of qualified human resources for their implementation, they have to be implemented in the medium-term.

### **5.2.1 Short-Term Recommendations**

#### **i. Pre-lodgment of documents**

One of the reasons for delay in the clearance of goods is the post-lodgment of documents. Pre-lodgment of documents (submission

of documents before the arrival of the means of conveyance) goes a long way in reducing delays in border clearance procedures. Thus, separation of release from clearance of goods could be beneficial to the trader as well as the customs body since this practice could reduce customs warehouse costs, inventory and insurance costs as well as storage and warehouse infrastructural requirements. Business operators should, therefore, be sensitized and encouraged to pre-lodge documents in order to radically reduce delays in release and clearance time of cargo. At the same time, ERCA needs to appreciate the merits of pre-lodgment of documents and be able to facilitate the implementation of same.

## **ii. Strengthening Post-clearance Audit**

Post-clearance Audit means a process which enables customs, after the release of goods, to verify the accuracy of the customs declarations through the examination of the books, records, business systems, and other relevant customs commercial data held by persons directly or indirectly involved in the import or export of goods. Interview results indicated that about 30 % of customs clearance delays at the Kaliti Commercial Goods Facilitation Branch Office emanated from valuation problems. In accordance with the provisions of RKC, valuation problems need not holdup the release and clearance of import cargo, as these can be followed up through Post Clearance Audit. This approach is expected to decrease risk levels and most products shall be channeled into “Green”, thus reducing the need for warehousing “Yellow” and “Red” category imports, which is a major source of delay in the clearance of goods.

The effective implementation of this approach presupposes that ERCA and importers/declarants need execute their respective responsibilities. In this regard, ERCA has begun preparing importer/declarant profiles, and classifying them into authorized economic operators (AEOs), which are intended to facilitate fast track clearance of goods. The target of customs should be to increase the number of (AEOs) with a strengthened Post-clearance Audit network. By the same token, declarants need to comply with the requirements of customs and be registered as Authorized Economic Operators.

### **iii Sensitization and Training**

ERCA is currently disseminating certain customs procedures requirements to declarants and mostly to forwarding and transit agents. Provision of regular training of customs officials and business operators, sensitization of all stakeholders in the merits of full automation and extensive capacity building in customs clearance procedures should be implemented. ERCA and the Ethiopian chamber system should take up this issue for immediate implementation by defining their respective responsibilities and jurisdictions.

### **iv. Decentralized import cargo clearance**

About 73% of Ethiopian imports are being handled by the customs branch offices at Kaliti and Bole. This concentration of import activities necessitates the construction of adequate warehouses and lends itself to truck traffic congestions as well as delays and higher costs in the delivery of imported goods to end users in the different regions of Ethiopia. Hence decentralizing import cargo clearance to the respective regions is recommended. In conjunction with this, ERCA needs to deploy qualified and decision-making customs officials in different clearing customs stations to facilitate faster clearance times.

### **v. Developing Proactive Public-Private Partnership Dialogue Forum (PPPDF)**

The private sector is recognized as the engine of economic growth. Efforts should, therefore, be mounted to build the capacity of private sector groups and business associations so that they can play greater advocacy roles in policy formulation and implementation. In this regard, a conscious attempt to foster and bring in as many credible stakeholders as possible with the requisite financial resources, technical know-how and other strengths to champion the full automation of customs is necessary. Broad stakeholder participation ensures all stakeholder concerns are considered and addressed. This state of affairs will facilitate compliance by all stakeholders. Now that the dialogue forum is established, it should work, among other things, on changing the rules of the game with a view of reducing transaction costs, developing trade infrastructure and trade corridors, encouraging border cooperation, lowering import costs, etc.

## **vi. Sensitizing EAL Employees Stationed Abroad**

The EAL needs to sensitize its foreign-based employees about their responsibilities regarding Ethiopian export promotion by not only responding to enquires from potential exporters or clients, but also providing feedback about market opportunities to producers in Ethiopia

## **vii. Appointing Responsible Consolidators**

In order to avoid misplacement of airborne cargo in different pallets that hamper faster clearance at destination, the Ethiopian Airlines should assume the responsibility of nominating responsible foreign consolidators to ensure faster clearance at destination.

### **5.2.2 Medium-term Recommendations**

#### **i. Undertaking Time Release Studies**

The lessons one learns from the experiences of best performers is the need for undertaking a series of studies until measurable improvements are registered in the customs clearing process. In keeping with the lessons from the experiences of these performers a TRS Working Group should be established in Ethiopia, with responsibility for the overall project. A Steering Committee at policy level or a TRS Reference Group involving the Ethiopia Chamber of Commerce and Sectoral Associations as an umbrella organization of the private sector in Ethiopia may serve as a channel of engagement with the industry sectors and OGAs involved in the supply chain.

#### **ii. Full Automation**

A versatile automated system for processing all customs declarations and payments needs to be developed and deployed. Full automation calls for the enactment of new legislation that recognizes electronic processing of transactions and payments. This system enables the different customs requirements such as the electronic issuance of certificates, permits, licenses and exemptions required for customs clearances by regulatory agencies to be facilitated and also plays an important part in the importation and exportation of goods manifest transmission and integration, importer/exporter

declarations, warehousing, valuation, transit tracking to be carried out in real time. In addition, it eliminates the need for escorting by convoys and the need for many customs checkpoints, which have been reasons for delays.

Similarly, full automation eliminates the to-and-fro shuttles of business operators for the collection of necessary border clearance documents from regulatory bodies located in different places, avoids duplication of efforts by many regulatory bodies and makes common information available to interested parties electronically, enables the transmission of the transit documents to coastal ports electronically, and avoids the inconvenience of not finding signatories of permits in the different regulatory bodies as and when sought by applicants, etc.

Likewise, for the benefits of a seamless clearance process to be fully obtained, there is a need for automating the manual, paper-based operations of other agencies within the clearance process. The constraints associated with lack of representation of other governmental organizations at frontier/outlying customs stations as well as the problems regarding delays in communication between such stations and the ERCA Head Office can also be resolved because of the electronic issuance of permits from the different regulatory bodies as well as the possibility of online communication between the different customs stations and head office.

In order to ensure reliable, fast and comprehensive information about clearance time and logistical status of goods, there is a need for implementing a Client-Oriented Logistics Information System by embedding the TRS in the current computer systems and running TRS automatically. The challenges associated with full automation include: resistance from individuals and institutions as it eliminates discretionary decision-making processes (i.e., decisions become impersonal), low-level of compliance of operators, the need for upgrading processes in other regulatory bodies, assuring stakeholders confidence that there is no breach in the integrity of the system and ensuring security in the face of fraud, intrusion, spam, or vicious viral infections that hit a number of systems around the world and bring operations to a halt. In order to overcome such challenges, strong government support needs to be solicited and the Public Private Dialogue Forum should come up with credible constituencies.

### **iii. Consolidation and Deconsolidation Services Provision**

The inclusion of heterogeneous products in a single import declaration, requiring various permits/certificate from various regulatory bodies is a source of delay in the classification, valuation, release and clearance processes. The reason for this is that many import-export operators in Ethiopia are small in size and find it expensive to make export-import surveys to order large quantity of imports, to supply large quantity of exports, to locate and negotiate the transportation of goods by vessels, to know and appreciate the domestic and foreign legal requirements for the exportation and importation of certain goods, the documentary requirements of export/import businesses, etc. These create serious constraints in doing business, causing delay in the clearance of goods from customs, escalating cost build-ups, and eventually inflicting loss of competitiveness in the domestic and export markets. Consolidation of export goods by many small producers/exporters, and deconsolidation of imported goods for many small producers/importers is virtually non-existent in Ethiopia. This gap needs to be bridged as a matter of urgency.

Consolidation or group-age services is one of the main advantages in using freight forwarders since they can group together consignments from several exporters and present them to a shipping company or airline as a single large consignment. In this way the forwarder can obtain a much cheaper rate than an individual company, and is able to offer the customer a competitive tariff for a small consignment. The principle of consolidation also enables the forwarder to offer added-value to the customer. For example, a forwarder consolidating cargo in one country will dispatch the full load to an agent in the destination country. The destination agent will de-consolidate, customs-clear and deliver the goods to the final consignee. In addition to providing a complete door-to-door service, the forwarder may be able to hold consignments at destination prior to delivery to await payment from the importer. This gives an element of security to the exporter, whilst minimizing delay in delivery.



#### **iv. Strengthening Multi-modal Transport Provision**

Delays are created at the port of Djibouti because of limited number of working hours by port workers (about 5 hours), and the fact that stevedores work at will. The recently introduced multi-modal transportation program would go a long way in avoiding loading down time at the port of Djibouti, reduces transport time, eliminates the need for insurance bond, eliminates the need for convoys, avoids theft and pilferage as most of the cargo is believed to be containerized and also avoids the need for many customs checkpoints along the line.

Multi-modal transport is dependent on rail for efficiency. High-speed trains are said to use one-third as much energy as comparable air travel and less than one-fifth as much as road transport. High-speed rail, is described as a “game changer” in the literature, is being revitalized in China and the USA. The employment of multimodal transportation and the use of faster trains is expected to radically reduce transit time and transaction cost. Hence, the employment of multimodal transport services by freight forwarders and national transport associations needs to be encouraged, supported and expanded. In conjunction with this, the establishment of private bonded warehouses needs to be encouraged and supported.

#### **v. Concluding Bilateral Agreements**

By way of avoiding duplication of efforts as well as reducing costs and release time for imported goods, there is a need for concluding bilateral agreements between the QSAE and counterpart standards institutions abroad for the issuance of conformity assessment certificates from the country of origin, and avoid inspection by the QSAE on importation.



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# ANNEXES

## Annex I: Questionnaire to Operators

### Border Clearance Procedures and Their Impacts on the Cost of Doing Business in Ethiopia

#### A. Profile of the Company

1. Name of Company \_\_\_\_\_
2. Form of Business Organization  
Sole Proprietorship  PLC  Cooperative   
Share Company  Joint Venture  Other
3. Activities the Company is Engaged in  
Importer (Please indicate the commodity types by HS code) \_\_\_\_\_  
Exporter (Please indicate the commodity types by HS code) \_\_\_\_\_  
Producer (Please indicate the commodity types by HS code) \_\_\_\_\_  
Freight Forwarder/Transitor \_\_\_\_\_  
Other, Specify \_\_\_\_\_
4. Membership in Trade Associations \_\_\_\_\_

#### B. Assessment of Customs and Regulatory Procedures

1. Which Customs Station Do you normally use?
2. What are the problems you face in your Border Clearance Operations?
  - 2.1 In Terms of Complying with Documentary Requirements
    - 2.1.1 Permits From Banks
    - 2.1.2 Shipping Documents ( Airway Bill/Bill of Lading)
    - 2.1.3 Ministry of Agriculture (Sanitary/Phytosanitary/HACCP)
    - 2.1.4 Ministry of Trade
    - 2.1.5 Ministry of Health
    - 2.1.6 Ethiopian Food, Medicine and Health Care Administration and Control Authority
    - 2.1.7 Quality and Standard Authority of Ethiopia
    - 2.1.8 Insurance Bond
    - 2.1.9 Other Regulatory Bodies
  - 2.2 During Transit
    - 2.2.1 At Djibouti Port
    - 2.2.2 From Djibouti to Addis Ababa
    - 2.2.3 At Kality Customs Station
    - 2.2.4 Other Customs Stations

2.3 During Release and Clearance Procedures

2.3.1 Goods Classification

2.3.2 Customs Valuation

Customs Infrastructural Adequacy (warehouse, heavy lifting machinery, sheds,

2.3.3 automation, etc)

2.3.4 Adequacy and Competence of Customs Officers

1. Is there any delay in the release of cargo from Customs?

Yes

No

2. If yes, what are the key constraints for the delay? (please list them in their order of seriousness)

**c. Recommendations**

1. Regarding missing facilities at ERCA

2. Regarding procedures that can be done away with and ease the constraints to border clearance

3. Any other recommendations for resolving the problems of border clearance delay?

## Annex II: Import Clearance Time in Ethiopia

Duration of Clearance Time in Days	Kaliti Commercial Goods Branch		Kaliti Export and Other Goods Branch		Diredawa Customs Branch		Adama Customs Branch		Total	
	Number of items	% of total	Number of items	% of total	Number of items	% of total	Number of items	% of total	Number of items	% of total
Less than a day	106,817	30.9	0.0	0.0	1,933	45.7	10,119	4.6	118,869	14.6
1	45,439	13.1	5	0.0	139	3.3	479	0.2	46,062	5.7
2	17,266	5.0	7	0.0	7	0.2	37,070	16.9	54,343	6.7
3	3,863	1.1	2	0.0	8	0.2	36,904	16.9	40,777	5.0
4	8,989	2.6	2	0.0	449	10.6	244	0.1	9,684	1.2
5	1,428	0.4	263	0.1	114	2.7	802	0.4	2,607	0.3
6-10	17,773	5.1	3,156	1.3	342	8.1	16,287	7.4	37,583	4.6
11-20	63,186	18.3	68,336	28.0	802	19.0	48,134	22.0	180,780	22.2
21-30	36,912	10.7	70,495	28.9	260	6.1	30,364	13.9	138,031	17.0
31-40	26,996	7.8	20,523	8.4	140	3.3	16,631	7.6	64,291	7.9
41-50	10,689	3.1	30,861	12.7	4	0.1	5,200	2.4	46,757	5.7
51-60	3,575	1.0	15,543	6.4	23	0.5	3,715	1.7	22,856	2.8
>60	3,188	0.9	34,443	14.1	10	0.2	13,034	6.0	50,675	6.2
Total	346,121	100.0	243,629	100.0	4,231	100.0	218,983	100.0	813,624	100.0

### Annex III: List of Organizations and Persons Contacted

S.N.	ORGANIZATION	PERSON INTERVIEWED	POSITION
1	Addis Ababa Chamber of Commerce & Sectoral Associations	Ato Fekadu Bekele Ato Tofiq Mohammed	Director, Advocacy Department Advocacy Officer
2	Dry Port Service Enterprise	Ato Seid Mohammed Ato Akilu Mulugefa	Plan Expert Expert
3	EFMHCARA	Ato Abdela Qasso	AA-Adama-Mojo Branch Coordinator
4	ERCA Head Office	Sisay Bahru Ato Haile G/Egziabeher Ato Wondwosen Getachew	Director, Change Implementation Directorate
5	ERCA A.A. Customs Import Goods Facilitation Branch Office	Ato Kebede Lidetu Ato Berhan W/Hana Ato Kibru Lakew Ato Gaym Yibrah	Risk Assessment Officer Branch Manager D/Branch Manager
6	ERCA Information Technology Administration and Development Directorate	Ato Getachew Shiferaw	Unit Leader

S.N.	ORGANIZATION	PERSON INTERVIEWED	POSITION
7	ERCA A.A. Airport Customs Branch Office (Bole Cargo Terminal)	Ato Mamo Senbete Ato Getachew Kebede Ato Gebremichael Kahsay	Acting Manager, (AA) Personal Effects Import unit
8	ERCA Dire Dawa Revenue and Customs Authority Branch Office	Ato Getahun Tuji	Branch Manager, Dire Dawa
9	ERCA Moyale Customs Branch Office	Ato Tesfaye Gebru	Customs Coordinator
10	ERCA Moyale Customs Branch Office	Ato Girma Fanta Ato Chali Kebede	A/ head of the Branch Office Document Investigator
11	ERCA Metema/Gendawuha Customs Branch Office	Birtukan Chane	Gendawuha Customs Coordinator
12	ERCA Metema/Gendawuha Customs Branch Office	Ato Redae Tekle Ato Yohannes Atsebeha	Export products unit Coordinator Import Operations Unit Coordinator
13	Ethiopian Air Lines (EAL)	Alemayehu Dejene	Manager, Ethiopia Cargo Traffic Handling
14	Ethiopian Leather Industries Company (ELICO)	Ato Tamirat Kitaw Ato Getachew Assefa	Export Department Import Department

S.N.	ORGANIZATION	PERSON INTERVIEWED	POSITION
15	The Ethiopian Shipping Lines (ESL)	Ato Bruck Dagne Ato Kassim M.	Logistics Manager Integrated Customer Service Head
16	Freight Forwarders/Transitors	Ato Leulseged Mengistu ASATCO (DD)	Et Afro Plc Manager (AA)
17	Labora International Trading Plc	Dr. Bewket Tadesse Ato Mengistu Tefera Ato Leyelet Zewde	CEO General Manager Transit Officer
18	Maritime Affairs Authority	W/ro Melkam Tilahun	
19	Ministry of Finance and Economic Development	Ato Abiy Minwiyelet	Assistant Legal Advisor (AA)
20	Ministry of Trade	Ato Geremew Ayalew	Director, Multilateral & Regional Negotiation Directorate (AA)
21	Ministry of Agriculture	Ato Fikre Marcos	Deputy Director, Animal Plant Health Regulatory Directorate



S.N.	ORGANIZATION	PERSON INTERVIEWED	POSITION
		Saba Debebe	Chemist
		Ato Yeraswork Yilma	Entomologist
22	Ministry of Health	Ato Ayalew Yimer	Transitor
23	Moyale Maritime Branch Office Moyale	Adamu Urago	Head of the branch office
		Mengistu Gedamu	Head of warehouse
		Ato Ashenafi Asfaw	Transitor
24	Misrak Transport Freight Association	Goitom Woldu	Branch Manager (DD)
25	The National Bank of Ethiopia (NBE)		
26	North-East Freight Forwarding and Customs Clearing S.C	Getachew Asfaw	Board Chairman
27	QSAE	Ato Zelalem Teferi	Customer Service A/Officer
	Petram Plc	Ato Tewfik Edris	Transit Manager, A.A
28		Ato Kemil Mohammed	Transit Manager, Dire Dawa
29	TiruBer Transport	Ato Tiruber	