Why export promotion efforts failed to deliver? Assessment of the export incentives and their implementation in Ethiopia

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Abstract

This paper examines the effectiveness of the existing export incentives in reducing the anti-export bias and encouraging exports; both in terms of their sufficiency and implementation related obstacles. We used a qualitative method and triangulated different data sources and interviews with different actors in the sector. The study reveals that the incentives provided for exporters are insufficient to motivate the private sector engage in exports. Firms that produce for domestic market have almost comparable incentives through investment promotion. The additional incentives provided for exporters are, thus, mediocre in comparison not only to the challenges associated with exporting and anti-export bias created by the existing policies but also to the investment incentives that are available for all investors including firms producing for domestic market. More importantly, the study found that the effectiveness of the export incentives is substantially constrained by the lack of efficient export bureaucracy and coordination problem. This has made difficult to ensure exporters have access even to the limited level of export incentives and encouraging diversion and rent seeking by the private sector. All these suggest that overcoming the incentive administration hurdles would reward the government’s effort in promoting export in addition to making the export inventive attractive relative to the investment incentive.

Keywords: Ethiopia, Manufacturing sector, Effectiveness of Export incentives
1. Introduction

Ethiopia has long recognized the role of export for economic growth and development. In 1992 the country established an Export Promotion Council (EPC) led by the Prime Minister. It also adopted, in 1998, an export promotion strategy, which led to the establishment of the Ethiopian Export Promotion Agency (EEPA). The export promotion strategy was latter transformed into a comprehensive Industrial Development Strategy (IDS) in 2002. The IDS identifies export oriented sectors such as, among others, Textiles and Garment; and Leather and Leather products as priority sectors and aims at increasing the value and volume of export these sectors. This strategy was put into action in the subsequent five years development plans, which carry explicit export targets. Various export incentives and capacity building programs have been devised and implemented to encourage exports in these sectors.

Despite these efforts, Ethiopia’s export performance remained below expectations. Export growth had been relatively remarkable in the period 2004/05-2009/10 and averaged 23.1%. However, this growth did not last long and exhibited a declining trend particularly in the last five years. As per the National Bank of Ethiopia (NBE) annual reports (NBE, 2011/12 to 2015/16), the average export growth in the period 2011/12 to 2014/15 falls to 9.6% with a negative growth (-8.5%) record in the year 2014/15 alone. The export growth of the manufacturing sector also shows the same declining pattern. Comparing the actual export performance with the first Growth and Transformation Plan, 2010/11 – 2014/15, (GTP I) export targets similarly reveals a huge gap. For example, by the end of the GTP I period, it was anticipated to generate USD 2.5 billion from manufacturing exports alone. However, the actual performance turned out to be USD 326.3 million, which is 13.2% of the target. The performance is similar when examining the priority export sectors such as textile and leather. Export participation of the Ethiopian manufacturing firms remained very low. For example, the 2013/14 Central Statistics Agency (CSA) survey shows that only 8% manufacturing firms participated in exports and the share of exports in total sales of the sector was only 10% (Gebreeyesus et al., 2016).

The worsening of export growth, particularly in the manufacturing sector in the face of export promotion activities including the provision of export incentives, calls for a thorough investigation. Anecdotal evidence shows that majority of export firms (including those established for exports) have become increasingly interested in the domestic market suggesting the relative attractiveness of domestic market compared to exporting. Gebreeyesus and Kebede

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1 The decline in export earnings could be attributed to many factors. For example, as indicated by IMF (2016) real exchange rate plays an important role to enter in to a new market. Thus, the overvalued real exchange rate of Ethiopia might have hindered entry into a new market and thereby decreased the potential revenue from these markets. The decline in commodity prices in the year 2012/13, 2014/15 2015/16 and 2014/15 which outweighs the increase in volume in these years could have a similar impact.

2 For example, 1 billion USD and 500 million USD from textiles and garment, and leather and leather products export were expected by the end of GTP I period. The actual export performance of textiles and garment sector export turned out to be USD 97.9 million, which is only 9.8% of the target while the leather and leather products sector was USD 131.6 which is less than 26.5% of the target set for the period (FDRE: NPC, 2016).
(2016) found the overall (tariff & non-tariff generated) anti-export bias in the Ethiopian manufacturing sector is very large and reaches up to 200-300% in some sectors suggesting the value added obtainable in the domestic market is greater than three times that could be obtained by exporting. According to them, trading costs and import duties are the major source of anti-export bias for textile and leather industries. The overvaluation of exchange rate further aggravated the disincentive to export.

The objective of this study is, therefore, to investigate to what extent the export incentives that comprise fiscal and non-fiscal schemes have reduced the anti-export bias and motivate exporters in the manufacturing sector. It specifically tries to answer major questions: (i) what are the export incentives available for exporters as opposed to firms selling in the domestic market within the same sector? (ii) how much sufficient are these incentives to motivate exporters (iii) how are each of these incentives implemented and how many exporters are practically using each of them? (iv) what are the institutional obstacles hindering the efficient implementation of the export incentives?

We used a qualitative method and triangulated different data sources including interviews of actors in the industry. We extensively reviewed official documents including proclamations, regulations and other documents outlining export promotion policies and strategies of Ethiopia. Key informant interviews were conducted using standardized list of questions which aimed at identifying implementation difficulties both from government and private sector angles. This includes 19 respondents involved in the administration of export incentives (from Ministry of Industry (MoI), Ethiopia Revenue and Customs Authority (ERCA), Ethiopian Investment Commission (EIC), National Bank of Ethiopia (NBE), Development Bank of Ethiopia (DBE), and Commercial Banks) and eight firms from the leather and textile industries who use the export incentives and comprising half foreign and half domestic owned firms.

The study shows that Ethiopia provides various investment incentives to all firms particularly in selected priority sectors. The additional incentives provided for exporters are, however, marginal in comparison to the investment incentives that are available to all investors including firms producing for domestic market. More importantly, the study found that the effectiveness of the export incentives is substantially constrained by the lack of efficient export bureaucracy and coordination problem, which has made difficult to ensure exporters have access even to the limited level of export incentives and encouraging diversion and rent seeking by the private sector. These coupled with the prevalence of high anti-export bias created by the policy and non-policy factors thus provide strong explanation why many firms in the manufacturing sector are reluctant to engage in exports that led to the poor export performance. The two main policy implications of the study are; (i) make a bold and not piecemeal policy change to increase the profitability of exporting vis-a-vis producing for domestic market and (ii) create functional and efficient export bureaucracy in order these incentives and policy changes to have real impact on exporters and exports.

3 Anti-export bias basically measures the relative value added obtainable in the domestic market versus in exporting. If the domestic price effect of import restrictions and other domestic market protection exceeds the exporter price effect of export incentives, then there exists anti-export bias.
The remaining sections are organized as follows. The next section provides literature review on the rationale for and effectiveness of export incentives. Section three describes each export incentive schemes in Ethiopia and compares them with the overall investment incentives provided to all investor and assesses their effectiveness and implementation problems. Section four summarize the findings of the study, and provides policy recommendations.

2. Literature review: Rational and effectiveness of export incentives

2.1 Export incentives and their justifications

Export promotion (EP) policies and strategies have long been used by many countries to boost export and stimulate export led economic growth through the creation of internationally competitive export sector. The importance of export on economic and social wellbeing is widely documented. Exports are the main sources of foreign exchange, reaping economies of scale and specialization, and accessing new technology (Helpman and Krugman 1985; Lall, 2000). Voluminous cross-country empirical studies (for example, Balassa, 1978; Tyler, 1981) indicated that export diversification has considerable explanatory power in per capita income growth across countries.

There are divergent views between the neoclassical and other school of thoughts regarding the conceptualization of export promotion. The neo-classical view argues that the export promotion is a situation in which the effective exchange rates (incorporating all forms of incentives and disincentives offered) for the country’s exports is equal to its imports. In other words, an EP strategy is a neutral trade strategy - i.e. no bias against exports - and is close to free trade (Bhagwati, 1990). On the other hand, others argue that export promotion strategy is not only about counteracting the anti-export bias but also implies providing incentives over and above those which would prevail in a neutral strategy.

The justification for the provision of export incentives is often related to government intervention to correct market failure towards exports activities. The extent and the form of export incentives, however, vary from country to country depending on the country’s economic structure (including its fiscal structure), overall resource availability, export potential, and the effectiveness of export incentives in realizing its export potential (Ahuja, 2001). Functional polices which aim at correcting market failures with an impact on the whole national economy but without distorting resource allocation between sectors are preferred by many in the neo-classical school as the best way of government interventions.

Export incentives, however, are often sector specific and selective by nature. Though they do not deny the existence of distortions in developing economies, proponents of free trade favor removing of these distortions per se rather than mitigating their effects through subsidies. In this regard, Panagariya (2000) argue that the correction of a distortion by another distortion is not preferred to leave the original distortion in place. He claims that not only are the two distortions
likely to become additive due to rent seeking and corruption, the introduction of the "corrective" distortion will eliminate the pressure to remove the original distortion.

But there are various arguments for the provision of sector specific export incentive, particularly in developing countries. The first justification is that government intervention through the provision of export incentives can help to protect the sector with latent comparative advantage for the period necessary for the spillovers to materialize (Harrison and Clare, 2009). Second, goods and factor markets imperfection may prevent the relative price of goods and factors of production from equalizing the marginal rate of transformation and the value of their marginal productivity across sectors respectively. Thus, they may signal ‘apparent’ comparative advantage in the wrong sector and led to inefficient resources allocation. In such cases, Gandolfo (2006) points out that trade policy intervention in the form of subsidy and taxation are justified to focus attention in the sector where the comparative advantage lies and to remove price distortions.

Third, it is well known that many developing countries have anti-export bias due to higher import tariffs, overvalued exchanged rates, and lack of easy access to imported inputs for manufacture of exports. All these factors tend to make domestic market more attractive than export markets. Export subsidy, instead of devaluation of exchange rate, is considered a mechanism for neutralizing this bias. Governments choose export incentives over devaluation of exchange rate since the depreciation of the exchange rate, which generally increases the profitability of exports, but runs the risk of leading to more domestic inflation as the prices of essential imports rise simultaneously. The incentive effect is also limited in the case of export items that have high import content. Moreover, export incentives can be more effective in targeting particular exports, especially emerging and value-added exports.

2.2 Export incentive and export performance

The empirical evidence about the impact of export incentives (subsidies) is generally inconclusive. Some economies have used export incentives with more success than others. According to Westphal and Kim (1982), the only country in the Asian region for which subsidies have been shown to have a statistically significant effect on export performance is South Korea, hereafter, Korea. In addition to, the subsidy on working capital on exports until at least 1980, which was substantial to offset the tariff and non-tariff protection of domestic market sales, firm-specific export targets were also part of Korea's export promotion strategy (Rhee et al., 1984).

Using data for the period 1964 – 1980 Jung and Lee (1986) showed that a 1% increase in subsidy (which comprise preferential export finance, tariff reduction and exchange rate changes) would bring about 2% increase in the amount Korea's manufactured export supply. However, their measure of export subsidy includes neither export insurance nor duty drawback. In another study, thus, Mah (2006) indicates that duty drawback scheme was effective in promoting export supply of Korea during 1975 to 2001. Similarly, Wu and Chuang (1998) find that Korea and Taiwan have used duty drawback schemes effectively. Strong administrative ability, and an overriding commitment and determination of leadership to meaningful economic
development, which, few less developed countries appear capable of making, are the main factors for the success of Korea (Evans, 1998).

For Pakistan, Islam (1969) evaluated the effects and the efficiency of the existing system of export incentive scheme. He found that effective subsidy did offset or nearly offset the effective protection in the majority of the cases, thus counterbalancing the relative attractiveness of production for the domestic market, created by the high effective protection throughout the fifties. Consequently, the manufactured exports in the aggregate have expanded in response to export incentive schemes in 1960s. Haque and Kemal (2007) show that over the long run, export financing scheme in Pakistan had a negative effect on exports while the rebate/refund scheme affected exports insignificantly. Celasun and Rodrik (1989) attribute Turkey’s export success in 1980s to real depreciation, and find little empirical support for any effect of export incentive. The simulation analysis by Arslan and Wijnbergen (1993), however, suggested the moderate contributions of the export subsidies to the export boom in Turkey during the same period.

The Latin America's experience with export subsidies also shows mixed result. Nogès (1989) investigated the Latin America's experience with export subsidies during the 1960th and 1970th. In most cases, he found that, export subsidies reduced only marginally the anti-export bias of Latin American countries since the subsidies were not supported by other policies conducive for export. Particularly, he stated that export subsidies appear to have improved exports in Brazil, which also liberalized imports significantly, stabilized real exchange rates, and promoted other policies conducive to export growth. Mexico also enjoyed improved exports with minimum export subsidies after reducing import barriers, and with apparently lower social costs than Brazil experienced. Export subsidies have failed in other Latin American countries, where fraud, corruption and rent-seeking have been rampant. The story in Africa and other countries is also similar. For instance, in many African countries duty drawback schemes have led to very few benefits for exporters (Hinkle et al., 2003).

As sited in Ianchovichina (2007) Rhee (1994) attributes this to lack of legal framework or implementation regulations. The absence of accompanying other free trade measures like avoidance of tariff was also important for the failure of export subsidies in Latin American countries. Other cross-country and country specific researches on export incentive and export performance also show different results. In their cross section analysis export promotion agencies and export performance using data covering 103 developing and developed countries Lederman et al. (2010) shows that export promotion agencies have a statistically significant effect on export expansion.
Table 1: Types of export incentives applied in Korea, Turkey and China

<table>
<thead>
<tr>
<th>Type of export incentives</th>
<th>South Korea</th>
<th>Turkey</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty/tax free import and VAT exemption</td>
<td>Used the scheme</td>
<td>Used the scheme</td>
<td>Used the scheme</td>
</tr>
</tbody>
</table>
| Tax Rebate/income tax exemption | ➢ Lower direct tax on income earned from exports  
➢ 80% reduction on exports profit tax  
➢ Tax break for domestic supplies  
➢ Accelerated depreciation of capital goods  
➢ Excess wastage allowance | ➢ Tax rebate on specified exported products  
➢ Additional tax rebate to large exporters based on the amount they exported (4-15mill USD 5% reduction, >15mill USD 10% reduction)  
➢ Export tax rebate scheme for indirect taxes paid at the last and earlier stages of fabrication | Enterprises with 70% of export products are entitled to 50% cut in corporate tax |
| Import entitlement certificates | ➢ Export-import link system entitled selected exporters to import certain popular items that were not otherwise approved for imports (import license) | | |
| Foreign exchange access and use | ➢ continuous devaluation  
➢ multiple exchange rate system, where exporters are allowed to sell their foreign exchange at free market  
➢ A system of export credit insurance and guarantees and tax incentives for overseas marketing activities | ➢ Allocation of certain amount of foreign exchange for exporters and the right to import intermediate and raw materials duty free  
➢ Allows exporters to retain and utilize abroad certain % of their foreign exchange earnings for various expenditures | ➢ Dual exchange rate and exporters allowed to convert their foreign currency at a favorable rate (2.80 versus 1.70 per dollar)  
➢ Retention of certain proportion of their foreign exchange earnings with higher proportion for exporters of high technology products  
➢ Continuous and managed devaluation |
<table>
<thead>
<tr>
<th>Utility and transport subsidy</th>
<th>➢ Reduced price for overhead costs e.g. electricity and rail transport ➢ Subsidy for transport of export products (USD 3-12 per ton if Turkish flag, USD 1.5-6 if under foreign flag) ➢ Exemption from various types of taxes, duties and fees (including credit supply for export financing, fees charged by banks, insurance companies, public notaries …)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments from Support and Price Stabilization Fund</td>
<td>➢ Exports commodities subject to the Price Stabilization Support Fund receive a 2% subsidy while others receive a 4% subsidy from the Resource Utilization Support Fund.</td>
</tr>
<tr>
<td>Subsidized export credits</td>
<td>➢ Short-term and long-term loans were given based on firms’ export performance per dollar of exports at a lower interest ➢ Immediate access to short and long-term subsidized credit for working capital and fixed investment ➢ Exporters get preferential credit for up to 25% when they reach a minimum level of exports. ➢ Exemption from various types of taxes, duties and fees (including credit supply for export financing, fees charged by banks, insurance companies, public notaries …) ➢ Export promotion loans at preferential rates ➢ Export credit insurance to cover the credit or political risks associated with export activities.</td>
</tr>
<tr>
<td>Free trade or special economic zones</td>
<td>Used the scheme</td>
</tr>
</tbody>
</table>

3. Assessment of the Effectiveness of the Export Incentives in Ethiopia

Ethiopia provides a range of export incentives in addition to investment incentives it gives to all investors. This section examines the effectiveness of export incentives in Ethiopia both in terms of their sufficiency and implementation related problems. The first sub-section presents the methodology and data source, while the second sub-section identifies the additional export incentives provided to exporters above and beyond the overall investment incentives available to all investors in the selected manufacturing sectors. The third sub-section involves description of the type of incentives and requirements as well as critical assessment of their implementation both from implementing government agencies and the private sector’s perspectives.

3.1 Methodology and data source

Our analysis began by reviewing official documents including proclamations of the Federal Democratic Republic of Ethiopia (FDRE), regulations and other documents outlining export promotion policies and strategies of Ethiopia. This review also helped us identify a list of relevant government agencies involved in the implementation and administration of the export incentives. Then, we selected a sample of government officials from these government institutions as key respondents. The key informant interview was conducted using standardized list of questions which aimed at identifying implementation difficulties both from government and private sector angles. A total number of 19 respondents comprised of various institutions such as the Ministry of Industry (MoI), Ethiopia Revenue and Customs Authority (ERCA), National Bank of Ethiopia (NBE), Development Bank of Ethiopia (DBE), Ethiopian Investment Commission (EIC) and Commercial Banks were involved in the key informant interview. Most of these respondents were contacted more than twice to get additional explanations for issues arising in the course of the research process.

In order to have a complete picture of export incentives effectiveness, we also conducted survey of small number of firms involved in export and benefiting from the various export incentives. To this end, we used the 2016 MoI export incentive users’ list database. The sampling of firms form the database is guided by government’s special attention of export promotion on leather and textile sectors and the need to have representative domestic and foreign owned firms. A total of eight firms consisting of four firms representing the leather and leather products including leather chemical suppliers, and four firms from textile and garment industry were interviewed. Half of these firms are domestically owned while the other half foreign owned firms. All of the interviewed firms are using more than one export incentives, and, on average, have been in the export business for eight years, and export 53% of their products to various international markets. All firms covered in the survey imported inputs worth of close to Birr 30 million in the current fiscal year, 2015/16.

The interview with private firms aimed at (i) soliciting information as to how they consider the effectiveness of the export incentives in encouraging export; (ii) identifying the challenges they face (iii) to estimate the costs they incur so as to get the incentives, and (iv) getting the possible
recommendations or suggestions of firms to improve the effectiveness of the schemes. Accordingly, firms were asked a range of questions like the degree of local market attractiveness compared to the export market and why they don’t use the available incentives.

3.2 The export incentives in the context of broad investment incentives

What motivate decision of firms whether to export or sale in domestic market is not the export incentives but the levels in relation to the incentives available to producers for domestic sales. We, thus, start by presenting what additional incentives are available for exporters beyond and above firms producing for domestic market in a given sector by comparing the investment and export incentives. Table 2 gives the list of investment and exports incentives provided by the government in selected manufacturing sectors. All investors in the selected sectors are entitled to a range of broad incentives that include free of duty imports of capital goods plus 15% spare parts of the capital goods, partial or full exemption of duty on vehicles, income tax exemption (tax holiday) for 2-6 years depending on the sector, and availability of cheaper credit and land.

The additional incentives for exporters include income tax exemption for additional 2-4 years (depending on location), drawback of 3.5% interest rate on credit from DBE (if 80% of production capacity is exported), free of duty import of inputs and easing customs procedure requirements through various mechanisms (e.g. Bonded Export factory scheme, Bonded export manufacturing warehouse, Bonded input supplies warehouse scheme), industrial parks’ one-stop-service, and other schemes aimed at improving foreign exchange access. The next sub-sections deals with the qualitative assessment under different headings each of which examining (i) how much sufficient the existing export incentives are to motivate exporters and enhance exports and (ii) what the main institutional and governance challenges are in implementation of export incentives.
Table 2: Export incentives Vs broad investment incentives to manufacturing sectors in Ethiopia

<table>
<thead>
<tr>
<th>S. No</th>
<th>Manufacturing Sector</th>
<th>Investment Incentive</th>
<th>Additional incentives for exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Duty exemptions</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>% age</td>
<td>% age of Capital Good</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Full or partial duty exemption in years</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>DBE make available credit at fixed rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Land made available at cheaper lease rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subsidized interest rate (3.5% drawback if exported &gt;80%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Income tax exemption in years</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subsidized credit</td>
<td>ITE</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>DDBS</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Agro-processing industry</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
<tr>
<td>2</td>
<td>Sugar and sugar related industry</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
<tr>
<td>3</td>
<td>Textile and Textile Products industry</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
<tr>
<td>4</td>
<td>Leather and leather products industry</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
<tr>
<td>5</td>
<td>Chemical and chemical products industry</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
<tr>
<td>6</td>
<td>Pharmaceutical industry</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
<tr>
<td>7</td>
<td>Basic metal industry (excluding mining of minerals)</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
<tr>
<td>8</td>
<td>Cement industry</td>
<td>100%</td>
<td>15% for 5</td>
</tr>
</tbody>
</table>

Source: Government of Ethiopia various policy documents

3.3 Description and assessment of export incentive schemes

The description and assessment of administration problems and challenges encountered during the implementation of each export incentives are presented below under the following five headings of competitiveness: (i) Input Cost (ii) Efficiency (iii) Access to and low cost of credit (iv) Income tax exemption and (v) Foreign exchange access.

1) Input cost competitiveness: Exemption of duty/tax on inputs

To ascertain that exporters have access to inputs at world market price and make them competitive in the global market, the government of Ethiopia has exempted exporters from paying duty/tax on inputs. The country has introduced different types of schemes that include Duty Drawback (DDB); the Voucher; and Accelerated Duty Drawback (ADDBS).

**Duty Drawback** (DDB) is one of the export incentive schemes that Ethiopia has started to provide as early as 1993. This scheme allows firms importing raw materials or an intermediate product for use in the production of an export good to receive 100% refund of the customs duty and tax payments made once the final product is exported. It has been adjusted through time. According to the recent Export Trade Duty Incentive Schemes Proclamation, Proclamation No. 768/2012, the beneficiaries of the scheme are direct and indirect exporter producer who are engaged in producing commodity and supplying same in whole, in part or periodically to foreign market. But products produced using these imported inputs should be exported within a year of the inputs imported and duty paid claimed should be no less than Birr 1,000. Appendix 1 shows the required documents to use the scheme.

The **Voucher scheme**, which was also introduced in 1993, allows exemption of duty/tax on inputs used for the production of export products. Unlike to DDB, the voucher scheme does not require beneficiaries to pay tax and duty on imported input at the time of import. This addresses the working capital shortage prevalent under the duty drawback scheme. Under this scheme exporters are given a voucher book, which has monetary value equal to the amount of taxes and duties payable on inputs the exporter would like to import for the production of export commodity. Appendix 2 shows the requirements of MoI that applicants must fulfill to be eligible for this scheme. Raw materials imported under the voucher scheme shall be used in the production of export commodity and the commodity so produced shall be exported within one year from receipt of such raw materials by the beneficiary.

Documentation and procedural requirements by the exporter for the reconciliation upon the export of the commodity within the import of the raw material are presented in Appendix 3. Upon approval of the authenticity of the documents presented and the eligibility of the applicant, ERCA will approve the request and reconcile using the voucher book. Indirect exporters who would like to benefit from the voucher scheme should pass though the input supply agreement process determined by MoFED and provide different documents (See Appendix 4). But MoFED directive which allow accelerated duty drawback for domestically purchased inputs requires the parties to present the document showing their agreement and the export of product. This is contrary to accelerated duty drawback which allows indirect suppliers to get the tax paid with seven days.
The **accelerated duty drawback schemes (ADDBS)** is the other means of getting duty/tax drawback for domestically purchased inputs. The scheme was introduced in 2004 and aims to ensure backward linkage of the industry particularly with agricultural sector by encouraging value addition in input supply chain, and eases the pressure on working capital shortage of exporters. The requirement to be the beneficiary of the ADDBS is simply to be an exporter and contribute to the country’s foreign exchange earnings\(^4\). In this scheme, exporters will get the duty/tax drawback within seven days of their application without confirming that the products produced using these inputs are exported.\(^5\) Nevertheless, the beneficiaries of this scheme should submit evidence that the product produced using locally purchased input is exported or sold to exporter producer as an input within three months from the date the duty drawback is made together with other documents required by ERCA.\(^6\)

Next we turn to the critical assessment of the implementation and effectiveness of each of these schemes. Table 3 presents a summary of number of users, required number of documents and time by each of the schemes. Currently the widely-used incentive scheme is voucher. For example, in 2016, there were 230 exporters that use the voucher scheme, whereas the DDB users were only 4. The reason for the underutilization of the different duty drawback schemes is obviously related to the problem surrounding the implementation, which are bidirectional and involve both the implementing agencies (MoI and ERCA) and the users of the scheme.

The first and major problem on the part of the implementing agencies is that there is no standardized input-output coefficient (IOC, hereafter), which can be used for the calculation of duty and tax refunded to exporters. According to Proclamation 768/2012, the MoI was given the responsibility to issue and implement directive concerning IOC within two years from the effective date of the proclamation. Until then, IOC presented by producers was supposed to be reviewed and approved by the Ministry pending the issuance and implementation of the directive. After four years of the issuance of the proclamation, however, MoI has prepared standardized IOC for two sectors only: textile and garment, and leather industries. According to our interviews, even for the sectors for which there exists standardized IOC it lacks details and doesn’t fit into firms’ particular demand. Thus the IOC is being updated continuously based on exporters’ requests.

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\(^4\) Ministry of Finance and Economic Development (MoFED) 2005 directive.

\(^5\) But according to the directive by MoI, the agreement to purchase the local input has to be made in front of MoI officials using the form prepared for this purpose by the ministry.

\(^6\) Regulations No. 791/2002 on VAT states that exporters who are not the beneficiary of the ADDBS can claim VAT paid by presenting evidence that they have exported the product produced using the locally purchased input.
Table 3: Number of users and required documents and costs by incentive schemes

<table>
<thead>
<tr>
<th>Type of incentive</th>
<th>Current number of user of the scheme</th>
<th>Procedur e One</th>
<th>Procedu re Two</th>
<th>Number of documen ts required</th>
<th>Processi ng frequenc y per year</th>
<th>Number of workers /day it takes</th>
<th>Waiting days to get the service</th>
<th>Estimat e cost per proces s, in Birr</th>
</tr>
</thead>
<tbody>
<tr>
<td>DDB</td>
<td>4</td>
<td>NA</td>
<td>4 or 5</td>
<td>5.5</td>
<td>2</td>
<td>4</td>
<td>213</td>
<td>3,500</td>
</tr>
<tr>
<td>Voucher</td>
<td>230</td>
<td>4</td>
<td>4</td>
<td>6.6</td>
<td>9.2</td>
<td>3.2</td>
<td>77</td>
<td>5,040</td>
</tr>
<tr>
<td>BEF/BMW</td>
<td>8</td>
<td>3 or 4</td>
<td>2</td>
<td>6</td>
<td>70</td>
<td>1</td>
<td>1</td>
<td>Small</td>
</tr>
<tr>
<td>BISW</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>7</td>
<td>10</td>
<td>2</td>
<td>13.5</td>
<td>5,400</td>
</tr>
</tbody>
</table>

Source: Government of Ethiopia various policy documents and private firms interview.

Second, the continuous revision of IOC, most of the time, is made by exporters when it is found that they must have unused imported input in their warehouse. Entertainment of such requests is believed to have created a situation where duty free imported materials are diverted for the production outputs for domestic market, and unfair treatment among exporters as some are forced to pay 50% penalty in addition to the duty and tax. For example, there are some cases where exporters request a change in IOC even after ERCA finished the reconciliation process. In our interviews we also found that, in the worst case, non-exporters are sometimes allowed to use the scheme illegally. This has the possibility of opening up ways for corrupt practices. Moreover, the continuous revision process is believed to have led to waste of time and money and adds inefficiency to the already poor service provision by ERCA.

Third, the determination of a new IOC and the reconciliation process is cumbersome and time taking, and entailing extra costs for exporters. Currently, of the total of 42 exporters who have submitted a request for IOC determination over a year only 15 of them have got a response and the rest, 27 of them, are still waiting the decision of MoI. This delay concerns not only DDB users but also reconciliation in voucher scheme. As shown in Table 3, the average waiting days for firms to get the final decision on the reconciliation of the duty and tax is very long, i.e., 77 days.

The continuous revision of IOC and the lengthy process of reconciliation are partly caused by the lack of sufficient manpower and the use of manual based systems instead of information technology (IT) based system to administer export incentives. For instance, the Directorate at MoI which administers export incentive does have only eight staff of the 25

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7 Firms were asked a number of questions and the cost estimates are derived from the number of manpower requirement per process and the monthly wage of works involved in the process. The same is true for table 4 and 5 below. In cases where the procedure is two procedures one refers to the application procedure for the scheme while the second procedure is the actual use of the scheme.

8 IOC determination involves opinion of experts who are working in Ethiopian Textile Industry Development Institute (ETIDI), and Leather Industry Development Institute (LDI). Getting expertise opinion takes long time as this may involve visit of applicants’ factories and the experts take this assignment as extra work. After obtaining experts opinion, discussion will be held among the national inventive determination committee members from MoI, MoFEC, ERCA and MoT with the presence of the expert/s and the decision of the committee will be sent to the minister of MoI for the final decision. But committee members do not meet on regular basis to decide on the issue.
staff required under different position. Similarly, the current actual manpower requirement of the team responsible for the administration of export incentives in ERCA is 20. This number has to increase steadily as the number of export incentive users and their requests are increasing over time. Yet, the administration of the export incentives is undertaken by 11 team members and only in one center. The staff turnover in ERCA is also staggeringly high. This is often attributed to a bad working environment which includes unattractive salary and fringe benefits, vulnerability to corruption and the fear of the ensuing tough punishments, and lack of proper office arrangements. All these resulted in low productivity of employees and lengthy reconciliation process. Moreover, the IT based reconciliation process, which could have improved the efficiency of reconciliation process substantially, is not yet implemented despite various efforts.

Fourth, even in the situation where there are standardized IOC and the reconciliation process is completed on time, exporters using DDB scheme may not get the refund they are entitled on time for the simple reason of unavailability of budget. Though Directive No. 768/2012 states that the budget required for duty draw-back shall be allocated by the government, customs officials provide unavailability of budget for duty draw-back as an excuse for the absence of timely refund of tax and duty paid. As a result, exporter claims that this scheme tied up their working capital for a long time and forced them to incur unnecessary extra costs like interest expense on loans. The unavailability of budget has similarly affected the refunding of the VAT paid on domestically purchased inputs for exports and takes months even after satisfying all requirements, which is against the seven days payback period stated in MoFED 2005 directive.

Fifth, due to difference in the interpretation of the proclamation by ERCA and MoI on the refund of taxes on waste products sold in the domestic market, exporters are unnecessarily forced to enter into years of litigation with ERCA. For example, contrary to the seven days refund period for VAT on accelerated duty drawback scheme given by MoFED, ERCA directive states that if voucher scheme beneficiaries used domestically available input to produce export product, they can claim the duty drawback after providing evidence that the product is exported. At the same time the directive does not indicate the time required to make the reconciliation process to make the refund. But an interview with MoI officials revealed that as far as the exporters are entitled to use the accelerated duty drawbacks the refund will be with seven days period irrespective of the scheme they use. Ironically, respondents from MoI revealed that the MoI which is empowered to give this entitlement does not have the list of exporters who are entitled the scheme.

The above problems have been identified mostly from interviews with the government officials, practitioners and expertise, thus, can be considered as own admission of governance failure. The interviews with the private sector have reinforced the severity of bureaucratic obstacles and long delayed processes. Firms claim that the numbers of documents they are required to submit in order to receive the refund are too many (about 6 documents). This coupled with absence of confirmation for receipt of documents and poor document handling usually resulted in resubmitting documents. The generic IOC application which does not fit into companies’ specific production requirement has also forced them to wait for a long time for reconciliation. For example, exporter firms have to wait on average for about 213 days to get the duty/tax drawback (see Table 3). In relation to this, the fixed wastage percentage for raw material set for the calculation of IOC is not realistic as the
proportion of wastage might vary from company to company and sector to sector. The firms strongly argue that the inefficiency and lack of capacity of the agencies responsible for the implantation of the scheme as the main reason for poor services. Some of the respondents also indicate that ERCA workers responsible for the administration of the scheme do not have a good understanding of the incentives, manufacturing sector and IOC determination. They also lack the industry experience to clearly communicate what should firms do to get incentive and for which they should pay duty and tax. Moreover, government agencies have no enough manpower to administer the scheme and the available personnel providing the service also change frequently.

The exporters also admitted their lack of awareness about the scheme and their unwillingness to give proper attention for the detail procedural requirements. They argue that although there are inter-governmental agency platforms to discuss problems encountered and harmonize service provisions across agencies, there is no coordination on the part of the implementing agencies to provide a regular and coordinated awareness creation.

Respondents from MoI support the fact that there is lack of awareness from the exporters’ side. According to them, most of the exporters do not request extension of the scheme they use one month before the expiry date of their entitlement (as per the rule) when they fail to export the commodity produced using the input imported under the scheme within one year from receipt of such input. According to Proclamation No. 768/2012 beneficiaries of each export incentive schemes who failed to get an extension from ERCA for additional one year or wants to sell raw materials imported under this schemes upon payment of the duty and tax chargeable on such raw materials shall, in addition to the duty payable on the unused amount of the raw materials, be required to pay 50% of the duty as penalty. However, for the simple reason of encouraging the exports, most of the time such exporters are not penalized accordingly.

Another problem from the exporters side is, diversion of the raw materials imported under such scheme for unintended purposes. Besides, some firms who divert the duty and tax free imported material to the local market production are not penalized according to the proclamation while others are forced to pay the duty and tax, and the penalty. This inconsistency and lack of coordination between different implementation agencies have created a loophole towards the uniform enforcement of the incentive administration.

II) Improving Infrastructure and Customs Efficiency

BEF, B(E)MW and BISW schemes
To avoid the cumbersome bureaucracy involved in customs clearance of imported inputs Ethiopia has introduced Bonded Export Factory (BEF) and Bonded (Export) Manufacturing Warehouse (B(E)MW) and Bonded Input Supplies Warehouse (BISW) Schemes. While the B(E)MW was introduced in 2001 the BEF and BISW were introduced in 2012. Raw materials imported by a beneficiary of the BEF/BMW shall be transported to the factory/manufacturing warehouse under the control of customs without being subject to payment of duty. These raw materials shall be used in the production of export commodity and the commodity so produced shall be exported within one year from receipt of such raw materials by the factory. However, ERCA may extend this period by one additional year taking into consideration the nature of the raw materials and other conditions. The BISW
Scheme is different from the above two schemes as the beneficiary should not necessarily be producers/exporters. The beneficiary could be a local or foreign firm who wants to import and supply raw materials or components to export producers.

Applicants who want to use the above schemes must get the eligibility certificate from the MoI. The final decision to be the beneficiary of these schemes should be made by ERCA after confirming that the applicants fulfill all the standard requirements for export factory, a manufacturing warehouse or inputs supplies warehouse. Appendices 5-9 show all the prerequisites of MoI and the standards of warehouse set by ERCA to be the beneficiary of such schemes. If applicants satisfy the entire requirements set by ERCA, they will be allowed to use these schemes within five days of their application.

Although these schemes (BEF, B(E)MW and BISW) are introduced to facilitate speedy customs clearance of imported inputs, the numbers of users so far remained very small. Recent ERCA’s data shows that there are only eight BEF users, eight BISW users and no user of B(E)MW scheme. According to respondents both from MoI and ERCA, the first main reason for the small usage of these schemes is the stringent requirements. For example, firms are required to implement the Automated System for Customs Data (ASYCUDA) handling information technology. But, let alone the private companies, ERCA itself has not yet implemented the ASYCUDA system fully. Given the current performance of these firms to comply with the requirement, it is unlikely that they will meet the requirement in the foreseeable future unless some extraordinary corrective measure is taken. As a result, the use of the manual based clearance system coupled with the critical shortage of manpower has hampered efficient service provision effort of the warehouse administration by ERCA.

Second, though the proclamation requires that raw materials imported under such scheme shall be transported to the factory/manufacturing warehouse under the control of customs, they are not delivered accordingly. This problem is mainly attributed to the inefficient service provision of Ethiopian Shipping and Logistic Services Enterprise (ESLSE). As a result, customers are forced to incur additional costs due to delays. Moreover, inspection of imported inputs as per ERCA’s procedure manual is not undertaken on time as customs officers do not show up to BEF/ B(E)MW on time. Third, ERCA officials complained that in contrary to Proclamation No. 768/2012 which requires BEF to export 100% of their products, most of the beneficiaries of this scheme act like indirect exporters by supplying intermediate inputs for other export producers. According to them, MoI facilitate the contract that these firms enter into as indirect exporters by supplying input. This problem is attributed mainly to lack of coordination and common understanding of the incentive scheme between MoI and ERCA.

The BIWS scheme users, on the other hand, have some more specific complaints. First, according to MoI officials, the most frequent complaint on the part of the BIWS scheme users is that they are unable to find buyers of inputs they hold in their warehouse. They pointed out that both export producers and government companies are not willing to buy the inputs from the bonded input supplies claiming that the inputs are sub-standard. Consequently, almost all beneficiaries of this scheme ask for extensions of the period since input imported under this scheme has to be delivered to a producer within one year of being transferred into a bonded supplies input warehouse. Second, customs high standard requirement for BISW made them to incur higher renting cost which is transferred to buyers.
of the input. Third, due to long customs clearance system firms using BISWS are losing their customers. According to firms using BISWS they are required to pass through two step declarations, **S declaration** when inputs are stored in the warehouse and **C declaration** when these inputs are sold. The sale of inputs should also be undertaken in the presence of customs officers. However, getting customs officers at the right time is difficult and time taking. This is aggravated by the fact that most of the BISW are located far from customs offices.

**The Industrial Zone Scheme**

Industrial Zone (IZ) is another scheme, which aims at improving infrastructure and customs service for exporters. Ethiopia has recognized IZ as an export incentive for the first time in 2012 through the Proclamation No. 768/2012. The establishment of an IZ is expected to attract FDI and promote exports since it reduces the cost involved and the time it takes to construct production facilities. In this proclamation, the MoI is entrusted to issue directive stipulating the criteria to be fulfilled by industries to become beneficiary of the industrial zone scheme. Like BEF, BMW and BISWS raw materials imported by the beneficiary of the IZ scheme shall be transported from a customs post to the factory under the control of customs without being subject to payment of duty. ERCA shall inspect raw materials brought into an industrial zone and goods produced by industries within the zone for export and local consumption. The imported raw materials need to be used for production of commodities (for export or local consumption) within one year of receipt of such raw materials by an industry within the zone.

As a matter of fact, the IZs establishment was started long before they were officially recognized as export incentive to promote export. Even after they are considered as an export incentive until recently there was no clear rules and regulation as to who would be the owners of industrial zones, who would be in charging of providing license for the construction, operation and management of IZs. In practice, however, the license to construct and own industrial zone had been provided by the MoI. With the enactment of the Industrial Park Proclamation, the IZ scheme is latter developed into full-fledged industrial park development initiative with far reaching and multiple objectives for industrialization. Thus, the IZ aims not only improving the customs clearance as was perceived earlier but also a full-fledged one-stop-shop services provision to firms located in the park.

At the moment, there are at least two cavities compromising the effectiveness of the industrial park scheme in promoting exports. First, the industrial parks are at their initial stage. Currently there are only four operational industrial parks in Ethiopia, namely – Eastern Zone, Bole Lemi, Hawassa and the Information Technology (ICT) Park located in Addis Ababa. Two private IPs (Gorge Shoe IP and Huwajan IP) and other five governments owned IPs (Hawassa No.2, Adama, Kombolca, Arerti and Mekelle) are also under development. Second, although quite a number of firms (IP enterprises) are operating in the IPs, the directive and regulation necessary for the implementation of the proclamation are not yet operational. The absence of such regulations created a gap in infrastructure development and the provision of other facilities such as banks and customs services within the park. EIC is still working on the draft proclamation stipulating the criteria to be the beneficiary of the scheme and customs operations in the IPs. Consequently, the one-stop-shop services expected to be provided in the IPs, except customs clearance during import and export, are
not provided as service providers are not willing to embark on the job. Thus, firms in IPs are not yet getting the maximum possible service from the parks.

III) Access to (and subsidized) Credit

Under this heading we examine two types of export incentives; Export Credit Guarantee (ECG) and availability of subsidized credit. Government has provided ECG incentive scheme to exporters since 2004 in order to facilitate local exporters’ access to bank credit and enables them not to lose an export market due to inability to get bank credit. The scheme allows financing banks to approve pre-shipment or post-shipment credit to exporters upon fulfillment of the eligibility criteria set by NBE and their own normal credit risk analysis. According to NBE’s directive, Directive No. SBB/41/2007, ECG is provided for a year and the criteria to be eligible for the scheme are different for new exporters and existing exporters. New exporters, those engaged in export business for less than 12 months at time of applying, shall produce a collateral equivalent to at least 40% to 50% of the amount of the loan requested. Existing exporters shall produce documentary evidence about receipt of export proceeds in the 12 months preceding the date of application for export loan under ECG scheme. Upon the request of a financing bank, the Guarantor shall issue export credit guarantee to cover 80% of the outstanding loan balance for existing and interest thereof extended to an exporter by the financing bank, provided the request is acceptable to the Guarantor.

The financing banks may extend the due date of loan covered by export credit guarantee for a maximum of 180 days. In addition, financing banks may, during the life of the export credit guarantee, repeatedly disburse loan to a borrower for export purposes equivalent to the amount of the partial or full loan settlement so long as the outstanding balance of the loan does not exceed the export credit guarantee issued to cover it. All exporters, except coffee, can use this scheme. Table 4 gives certain features as well as documents and procedural requirements of the ECG scheme. There are 11 documents and two procedural requirements to be presented and fulfilled to get the export credit guarantee. See Appendix 10 for more on the procedural requirements of ECG.

Two years after the provision of ECG was transferred from NBE to DBE almost all banks had been providing export credit; and the total ECG loan by DBE reached about Birr 1.2 Billion in 2008/09. One of the reasons for the high growth of the scheme during this period was actually external pressure to provide the guarantee by board members and other officials. In recent years, however, the use of ECG has declined significantly. As a result, DBE went to the extent of preparing a proposal for exist strategy to terminate the scheme. Yet, NBE rejected the proposal on the ground that the scheme has a huge potential to encourage export and it is not yet utilized properly.

There are two different arguments regarding the decline in the use of the scheme. The first, which represents the views of DBE management, is that the scheme has met its objectives by helping exporters to create asset that they can pledge as collateral to get credit. The second argument, which represents experts’ view in the banking industry, is that the controversy between DBE and financing banks in claims settlement is the main reason for its decline. NBE directive on ECG allow financing bank to provide revolving credit to exporters during the ECG period so long as the outstanding balance of the loan does not exceed the
export credit guarantee issued to cover it. Claims on such revolving export credit, however, are not entrained by DBE as long as the borrowers have received an amount equivalent to the loan guaranteed by the scheme form the first export proceed. Such decision by DBE has led to various controversies between DBE and financing banks. Consequently, most of the financing banks which used to work with DBE have stopped providing export credit. From the exporters’ point of view, the frequent change in the document requirement is the major problem not to use the ECG scheme. According to exporters using the scheme, the manpower per day requirement, waiting days and costs involved to use the scheme are two people per day; seven days and Birr 1,000.00 respectively (see Table 4).

Table 4: Features and required documents and costs: credit access and income tax exemption

<table>
<thead>
<tr>
<th>Type of incentive</th>
<th>Description</th>
<th>Number of documents required</th>
<th>Processing frequency per year</th>
<th>Number of documents required</th>
<th>Number of Manpower/day it takes</th>
<th>Total waiting days to get the service</th>
<th>Estimate cost per process, in Birr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export credit guarantee</td>
<td>Provide collateral to access bank credit</td>
<td>Documents required for credit risk analysis.</td>
<td>9</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Access to low cost credit</td>
<td>3.5% interest drawback</td>
<td>Procedural manual is under preparation</td>
<td>-</td>
<td>1.5</td>
<td>15</td>
<td>7.5</td>
<td>197.5</td>
</tr>
<tr>
<td>Income tax exemption</td>
<td>2-4 years income tax exemption</td>
<td></td>
<td>1</td>
<td>3</td>
<td>9</td>
<td>6.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: Government of Ethiopia various policy documents and private firms interview

The second export incentive under this heading is the provision of subsidized credit. DBE had long been providing development finance to priority sector areas at lower interest rate, 8.5%, which remained fixed even in the period of high inflation. Until recently this incentive scheme had not differentiated those produce for export and local market. The credit policy simply favored priority areas which are believed to be export oriented and strategic import substitutes. Credit was allocated on first come first serve basis and the policy allowed low interest rate for priority areas indiscriminately. In this context we can state that the policy failed to meet its objectives of encouraging the export sector.

Recognizing this fact, DBE revised its credit policy in 2015 and start to differentiate exporters and non-exporters. According to this new credit policy, every borrower is equally treated at an entry, with a standing interest rate of 12% per annum. The 3.5% difference will be put on hold, until the business proves itself successful in exporting the required per cent of total sales.

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9 In cases where the procedure is two procedures one refers to the application procedure for the scheme while the second procedure is the actual use of the scheme.
production as per the project plan submitted to the Bank. When exporters provide evidence that they exported 80% of their production capacity within a year after they took the credit, they would be entitled to claim the 3.5% interest drawback which was accounted as interest income of DBE. If the export is between 60 to 80% of the production, the interest drawback would be 2.5%. This credit policy at the same time allows borrowers a grace period to start production within two years. The pre-operational interest rate that would be calculated for the two years can be claimed when firms start exporting in the third year.

However, no user of this subsidized credit scheme is reported yet despite its existence for more than a year. Thus, it might be too early to evaluate the impact of the new credit policy as it will take years to get materialized. But we can identify certain problems on the regulation itself and procedural requirements. The problem with the new credit policy is that total production is related to capacity utilization and it does not have a detailed description of what total production mean. As a result, an exporter utilizes 100% of its capacity and export 50% of its production may not be able to enjoy the 3% or 2.5% interest drawback. In the contrary, an exporter who uses the 50% of its production capacity and export 80% of the production may be able to enjoy the 3.5% interest drawback. This will create unfair treatment and discontent among exporters, and may put the scheme in danger from its start.

According to the private firms’ respondents, the DBE credit scheme in general has improved their access to finance. These respondents, however, suggest that there has to be additional provider of such scheme which would compete with the only provider of this scheme, DBE. Moreover, they suggest that the credit appraisal process has to be short and transparent. According to these firms, they are required to submit 15 documents and the average waiting days to get the final decision for their credit application is more than three months (see Table 4).

**IV) Income Tax Exemption**

Ethiopia provides up to six years of income tax exemption for investment in priority areas irrespective of export or local market orientation. The recent Regulation on Investment Incentives and Areas Reserved for Domestic Investors, Proclamation No. 270/2012 allows exporters in general to be exempted from the payment of income tax received from exports for additional two years. According to Regulation No. 312/2014 which amended Proclamation No. 270/2012, an exporter who is located in the IZs of Addis Ababa or Special Zones of Oromia and exports 80% of the manufacturing output or supplies the same as an input to export producer will get additional two years income tax exemption. If the exporter is located outside these areas the additional income tax exemption will be up to four years.

The procedural requirements to use the incentive seem straight forward. EIC has to write a support letter to ERCA indicating the fact that a particular exporter is the beneficiary of the scheme and requests the same to administer it accordingly. Then, ERCA administers the additional income tax exemptions for exporters based on the Income Tax Proclamation, Proclamation No. 286/2002. According to ERCA official, the beneficiary of the scheme should provide declaration of export and income statement that can be used to ascertain the actual export of the goods for which income tax exemption is requested.

One major limitation of this incentive is that exporters receive only two years of additional income tax exemption. We argue that a two year addition is marginal to motivate firms
engage in exports as they can claim income tax exemption for the first six years under the investment incentive scheme. Another problem is related to the administration of the income tax incentive due to capacity limitation and lack of awareness of exporter on rules and regulations related to the incentives. Similar to the other incentives above, the lack of skilled and motivated staff is hindering the efficient implementation of the income tax exemption. ERCA has faced a huge staff turnover. As a result, most of its staffs are fresh university graduates and most of them do not stay for more than two years. The ICT infrastructure is not also well developed, which is even more severe when it comes to branches outside Addis Ababa. In addition, it is not clear as to how ERCA can confirm the beneficiary of the scheme has actually exported 80% of the total production of the year in which tax exemption is requested. This raises the issue of coordination and monitoring problem.

V) Foreign Exchange Access Competitiveness

Retention and utilization of foreign currency earned by exporters

The first and may be the most important incentive scheme is the retention and utilization of foreign currency earned by exporters. According to the retention and utilization of export earnings directive, Directive No. FXD/02/1996, eligible exporters, who have fully settled his/her foreign exchange commitments with the National Bank of Ethiopia (NBE), shall open two types of forex retention accounts, forex retention account A and B, in local banks. Such accounts shall not be credited from any other sources except from export earnings. The amount that eligible exporters can keep in these accounts has changed through time. Initially, eligible exporters had the right to retain 30% of their foreign currency export earnings in retention account; that is 10% in Account A and 20% in Account B. The remaining 70% of their export earnings shall be surrendered to NBE at the prevailing marginal exchange rate within two days of the receipt. Exporters were also free to sell the balance in the retention Account B at a negotiated rate at the end of the period allowed to maintain the balance in the same account.

The above directive, however, was revised twice using the Retention and Utilization of Export Earnings and Inward Remittances Directives Nos. FXD/04/1996 and FXD/11/1998. These revisions have changed the foreign currency amount and the period for which exporters are allowed to maintain the foreign currency in their retention accounts. The latest directive, Directives No. FXD/11/1998, allows 10% of the foreign currency export earnings to be deposited in forex retention Account A of an eligible exporter. The utilization of the balance on this account shall have no time limit and may be debited with export business-related payments only. The remaining balance, 90%, of the foreign currency earning form export shall be deposited in forex retention Account B of an eligible exporter. The balance in this account shall be offered for sale by the account holder not later than 29 days from date of entry to commercial banks at negotiated rate. Thus, after the expiry of the 28 days commercial banks are obliged to convert balances on Account B for their own account and pay the Birr equivalent to such customers, using the NBE’s marginal rate for that week, which is 2% between the buying and selling rate of banks.

Though the latest NBE directive which governs the foreign currency transaction allows banks to buy the foreign currency through negotiation, up to the 2% buying and selling rate margins, NBE orders banks to stop such practices and to buy the foreign currencies at the buying rate starting from December 2014. This decision resulted in reluctance on the part of
exporters to transfer the export proceeds to banks even after the expiry of the 28 days deadline and started to be engaged in the mishandling of foreign currency. Especially, during the periods where there was shortage of foreign exchange, exporters happened to be the main decision makers in the allocation of the foreign currency they got from their export proceeds. They threatened their banks to stop their customer relationship if they don’t follow their instruction in the allocation of the foreign exchange. Banks’ guidelines in the management of the foreign exchange were also open for discretionary allocation of foreign exchange by bank managements and boards. Thus, such abuses of the scheme further aggravate the foreign exchange shortage by increasing the foreign exchange demand artificially.

In order to solve this problem, NBE was compelled to issue a new directive on transparency in foreign currency allocation and foreign exchange management, Directives No. FXD/45/2016. The new directive, and guideline and controlling mechanism aim to ensure that foreign exchange is allocated in a transparent and sound manner on first come and first serve basis without opening a room for rent seeking behavior and malpractice. In addition to the bank management, the directive made board members of banks equally responsible for the allocation and management of the foreign currency. According to some observers in the banking industry, however, while the directive has helped to reduce the malpractices and influences of exporters, it has brought its own problem for small banks.

Firms using the scheme have two divergent views regarding its effectiveness in encouraging export. Some firms held the view that the scheme is effective in encouraging export since it allows them to use their foreign currency earnings for an immediate and urgent use. Furthermore, they claim that compared to the normal foreign currency application procedure to import raw materials the scheme enables them to import inputs on timely bases. This in turn helps them to make timely delivery of export which is highly important to remain competitive in international market. The second group, on the contrary, argues that the scheme should not be considered as an incentive in the first place. They contend that as exporters they should have full right over the foreign currency they earned for indefinite period. But in the current situation the government has almost the full control over their foreign currency earnings. Thus, they revealed that they are not motivated to continue engaged in export market and rather they prefer to sell their products to the local market.
Nonetheless, all users of the scheme agree that the amount in retention account A is very small to meet their import demand. In addition they point out that the 28 days limit on retention account B to use 90% of their foreign currency earnings is too short to use the amount for export business. Thus, firms suggest that the time limit on retentions account B should be long in addition to increasing the amount that should be kept in the account. All these indicate that the problem with the foreign exchange retention or selling rate is associated with the overvaluation of the exchange rate of the Birr. The exporters are receiving small amount of local currency (Birr) for each dollar they get artificially below the equilibrium market rate. Further squeezing the benefits they have been receiving through successive regulations is discouraging exporters. As a result they tend to manipulate the system or quit to export altogether. Thus, the focus should not be on control but how to sufficiently compensate the exporters for the lost opportunity. Documents and procedural requirements, and cost estimate of the Retention and Utilization of Export Earnings and others related schemes are presented in Table 5 above.

**External financing and supplier’s credit from abroad**

A second export incentive scheme where exports are allowed foreign exchange access is external financing and supplier’s credit from abroad. According to NBE’s directive to register external loan and suppliers’ credit, Directive No. REL/005/2002, applicants for the registration of external loans and suppliers or foreign partners’ credit or other implicit form of foreign credit, should be individuals or firms engaged in export oriented activities. The application for the schemes should be made using the form designed for the same purpose and submitted to the NBE together with the documents listed in Appendix 11. Borrowers who obtain a credit in the form of suppliers’ credit shall produce a contract agreement to NBE which contains terms of payment, interest payment, arbitration procedure, terms of delivery of goods covered and repayment schedule. In this scheme, any exporter is allowed to use the foreign currency to meet expenses of transportation and transit of exportable, and to
acquire capital goods, raw materials, semi-finished goods, spare parts and other such inputs for use in their activities.

According the NBE official, the bank has not encountered any problems in the administration of this scheme. It simply controls the interest rate on the external loan and looks at the export target of the exporters who wants to use the external loan. It allows a maximum of plus 5% interest rate from the libor interest rate.\(^\text{10}\) However, the problem with this scheme is that more than 99% of the users of the external loan and suppliers’ credit scheme are foreign firms indicating that this scheme has not benefited the domestically owned firms. The reason for this might be that local exporters do not have the collateral that they can offer for foreign financiers.

**Franco-Valuta:**
Importation of Goods on Franco-Valuta basis is the third export incentive scheme which allows exporters to have access to foreign exchange. According to the revised regulation by the Council of Ministers, Regulation No. 88/2003, foreign and Ethiopian investors permanently residing abroad can import machinery and goods for their investment activities or inputs for the production export output on Franco Valuate basis. Exporters who want to use this scheme can apply to ERCA either before or after the item to be imported entered into the country. Depending on the nature of the commodity/input imported exporters might be asked to present evidence of certification about the nature of the commodity from relevant agencies. According to the directive which transferred NBE’s foreign exchange functions to Commercial Banks, Directive No. FXD/07/1998, commercial banks shall allow Franco-Valuta imports subject to the presentation of documents listed in Appendix 12. But the actual permit to import is given by ERCA. The role of banks in this case is just to record the import transaction in the banking system and collect the 2% service charge on behalf of NBE.

ERCA official responsible for implementation of the Franco-Valuta scheme cited no administration problems. This is because once the exporter is allowed to import the input on Franc-Valuta basis the importation of the item pass through all the normal customs procedure applied by ERCA. The only problem raised is that the regulation governing the scheme is outdated and not comprehensive and detailed so as to entertain the different type and growing Franco-Valuate requests. Thus, ERCA suggested that the regulation and directives governing the scheme has to be revised as soon as possible to provide efficient service for customers. The beneficiaries of the Franco-Valuta scheme are, however, the foreign or diaspora owned firms. Thus, this incentive has no relevance to the local owned firms similar to the external financing and supplier credit scheme discussed above.

\(^{10}\)The liber interest rate is the average of interest rates estimated by each of the leading banks in London that it would be charged were it to borrow from other banks.
4. Summary and policy recommendations

4.1 Summary

This sub-section summarizes the main findings on the effectiveness of the export incentives in two dimensions. The first issue is that how much sufficient the existing export incentives are to motivate existing exporters to increase their exports and attract potential investors to the export sector. In this regard, what concerns potential exporters is not the presence of export incentives but the levels in relation to the incentives available to producers for domestic sales. We found that all investors in the priority sectors (irrespective of producing for domestic market or exports) enjoy a range of investment incentives. The additional incentives provided for exporters are in most cases marginal taking into consideration not only the challenges associated with exporting and anti-export bias created by the existing policies but also in comparison to the investment incentives that are available for all investors including firms that produce for domestic market. The export incentives are also mediocre in comparison to the scale of export incentives used in other countries such as S. Korea, China and Turkey (see Table 1) in their early stages of development.

Below is summary of some of the concrete examples that suggest the insufficiency of the existing export incentives and one major reason why many firms fail to be motivated to export.

i) All investors in the selected sectors are eligible for up to 6 years’ income tax exemption. The additional tax exemption available for exporters is only 2 years provided firms export 80% of their produce. The extension of the tax holiday for about 2 years is, however, too small to motivate firms to engage in exports given the sunk costs exporters incur to enter into export markets and the presence of large anti-export bias in the economy.

ii) Until recently, there had been no favorable treatment of exporters in terms of credit availability or/and interest rate provided. Credit was made available at 8.5% interest rate to firms investing in selected sectors irrespective of their engagement in exports or domestic market. It is only in 2015 that DBE announced a rise in interest rate to 12% at which a drawback of 3.5 per cent interest rate on credit is allowed for exporters provided they exported above 80 per cent of firms’ production capacity. There are no recorded users of this scheme yet and seems too early to evaluate the impact of the policy change. But there are certain procedural and performance monitoring limitations as well as the credit appraisal time is long and lacks transparency in general.

iii) Preferential access to foreign exchange for exporters is given in the form of the retention of foreign currency proceeds from exports, which has been relatively more attractive incentive to exporters. Initially, the exporters were allowed to retain largest percentage of their export earnings and also sell the foreign currency in their retention account through negotiation up to the selling price of banks. This scheme has been abused by a number of exporters and also banks engaged in the foreign exchange market. NBE has been forced to issue different directives to tackle such abuses. However, the new directives have been increasingly squeezing the benefits
of the exporters. For example, the requirement on exporters to sell their foreign exchange at the buying rate is not justifiable given the increasing disparity between official and parallel exchange rates.

iv) External financing, supplier credit, and Franco Valuta imports are aimed at increasing the foreign exchange access of exporters. Nonetheless, more than 99% of the users of external financing and supplier credit schemes are foreign firms. The reason might be local exporters do not have the collateral that they can offer for foreign financiers. Similarly, the franco-valuta is given only for foreigners and diaspora. Thus, they have no effect on the local exporters’ motivation.

The implementation and administration related problems is the second and equally important factor, which constrained the effectiveness of the export incentives. The main implementation related problems are summarized below:

i) Though DDB, voucher, ADDB export incentive schemes help exporters get inputs at world market price. But, there is a huge disparity in terms of their use. There are only four DDB users, while relative large numbers (230) are voucher users. The main problem with DDB is that it holds up capital for a long time as ERCA takes long time to process the request and give refund of the duty and tax paid. Although capital is not tied up, the long delay in reconciliation process is equally challenging for voucher scheme. The delay in determination and reconciliation process is caused by the absence of standardized IOC, lack of clarity in procedural requirements, and the manual based system on the implementing agencies. In the absence of IOC’s, exporters are forced to present their own IOC. The determination and revisions of IOC up on the request of exporters has the possibility of opening ways for corruption. Entertainments of such requests have also created a situation where duty free imported materials are diverted for the production outputs for domestic market, and unfair treatment among exporters. It also adds inefficiency to the already time taking reconciliation process which is based manual system.

ii) The BEF/BMW/BISW schemes are supposed to increase the efficiency of exports by facilitating customs procedure. The existing users of these schemes are, however, few in number and complain of delayed transporting and inspection of warehouses as well as stringent requirements for warehouses.

iii) Another major governance related problem is the lack of monitoring and coordination among different government agencies in administering the export incentives leading to continuous abuse of the incentives by the private sector (exporters). Diverting the duty and tax free imported material to the local market production is becoming common and often remained unpunished. In some cases, users of BEF act like indirect export suppliers though they are supposed to export 100% of their products produced from imported inputs. This problem is attributed mainly to lack of coordination and common understanding of the incentive between MoI and ERCA.

iv) IZs are first recognized as export incentive in 2012 to give exporters infrastructure cost competitiveness advantage. The main challenge in this scheme is that the directive and regulation necessary for the implementation of the proclamation are
still under development by EIC. As a result, the one-stop-shop service stipulated to be provided in the IPs except customs clearance during import and export is not provided.

v) Export credit guarantee scheme which aims to provide credit access for exporters had been provided by NBE. This incentive scheme is, however, currently not fully operational due to controversy between DBE and NBE on the relevance of this scheme and the ensuing lack of promotion by DBE, and problems related to claim settlement. Consequently, most of the financing banks which used to work with DBE have stopped providing export credit.

vi) Additional two years of income tax exemption is also provided to exporters provided they export 80 per cent of their production. Like the other schemes this incentive scheme has its own implementation problems among others due to lack of clear understanding among the ERCA staff of how the tax incentive provision works and poor ICT systems, which make the clearance and license renewal process time taking.

The majority of the above listed implementation problems are attributed to the lack of capacity and coordination in the implementing agencies such as MoI and ERCA. The agencies are understaffed and facing high staff turnover, which is attributed to low pay and bad working environment including lack of proper office arrangements, vulnerability to corruption and fear of the resulting tough punishments. This has resulted in low productivity of employees, lengthy reconciliation process, loose performance monitoring and corrupt practices. The lack of automated system (ICT) is another cause of the inefficiency in export incentives administration.

4.2 Policy recommendations

Ethiopia has long recognized the role of export for economic development and introduced different policy measures and incentives to encourage exports. Despite this, the export performance and particularly of the manufacturing sector remained disappointing. Recent study by Gebreeyesus and Kebede (2016) reported a very large anti-export bias, as high as 200-300% in some sub-sectors of the manufacturing, which emanates from tariff and non-tariff trade barriers and making the domestic market very attractive in contrast to exporting. The present study examined the effectiveness of the existing export incentives in reducing the anti-export bias and encouraging exports; both in terms of their sufficiency and implementation related obstacles. It reveals that the additional incentives provided for exporters are insufficient not only to overcome the challenges associated with exporting and anti-export bias created by tariff and non-tariff barriers but also in comparison to the investment incentives that are available for all investors including firms producing for domestic market. In some cases, incentives (for example, use of foreign exchange) are squeezed from time to time in an effort to reduce abuses by the private sector. The study also found that the effectiveness of the existing export incentives is substantially constrained by the lack of efficient export bureaucracy and coordination problem. This has made difficult to ensure exporters have access even to the limited level of export incentives and encouraging diversion and rent seeking by the private sector.
In order to enhance exports, the government need to deal with the two sides of the equation; (i) reducing the anti-export bias directly and (ii) improving the export incentives to compensate for the anti-export bias created by the system. Directly addressing the anti-export bias requires revising the tariff structure and particularly reducing the high duty rates in the export oriented sectors. The overvaluation of the exchange rate of the Birr is also another factor discouraging exporters. Hence, government needs to establish a competitive exchange rate market or progressively and gradually devalue the Birr. If this not possible due to other macro considerations the government has to compensate exporters by paying certain amount of Birr per one dollar export earnings. But the trading costs and particularly time delay caused by logistic inefficiency and customs procedures is the largest source of anti-export bias. Hence, the most important and efficient means to reduce the anti-export bias is to address the non-tariff trading barriers through facilitating speedy transport and efficient logistics and customs service.

It is not possible to completely eliminate the anti-export bias using the above instruments. Granting additional export incentive packages and enhancing the existing ones is, thus, required to compensate for the anti-export bias. Unless the export incentives are sufficient enough to compensate the remaining anti-export bias and outweigh the overall investment incentives the willingness to export could continue against the country's policy of export-led growth. Therefore, it is imperative to nurture the manufacturing export sector by encouraging exporters with several stimulus packages so that the sector in particular and the economy at large could reap the benefit of large export market. In this regard, the government has to explore additional and selective incentives schemes, and take bold and not piecemeal changes, to increase the profitability of exporting vis-a-vis producing for domestic market. Such policy instruments are crucial to create excess capacity (use scale economies) at home and sell commodities at cheaper prices to the rest of the world. Overcoming the administration challenges of the export incentives implementation has also a paramount significant. Hence, the government has to strengthen the capacity of implementing agencies through manpower, implementation of modern customs clearance system and by making the salary and benefit packages at par with competing sector. This is because creating a functional and efficient export bureaucracy (staff skill, discipline, remunerations etc.) is critically important in order these incentives and policy changes to have real impact on exporters and exports.
References


FDRE: Ministry of finance Economic Development (MoFED), (2005 EC). ‘Directive for the


Division of Production, Productivity and Management, Unit of Investment and Corporate Strategies.


Appendices

Appendix 1: Documentation and Procedural Requirements to Get the Duty Drawback

1. Applicants of the duty drawback should submit the following documents:
   a) Receipt showing the tax and duty paid for imported raw material
   b) MoI certified input–output coefficient of the product produced using the imported input and exported.
   c) Invoice showing the raw material is imported from abroad
   d) Customs declaration for the imported good.

2. After confirming the receipt of the above required documents, ERCA will pay back the tax and duty paid immediately if the claim is not more than Birr 500,000.00. Otherwise, the tax and duty will be refunded within thirty days of the application.

Source: Ethiopian Revenue and Customs Authority, 2005.

Appendix 2: Requirements by MoI to Be the Beneficiary the Voucher Scheme

1. Renewed business license for export or import, or investment certificate for new applicants; and recent photo of the applicant,
2. Applicants for the scheme should fill the form prepared by MoI for this purpose and declare the current condition of the enterprise and the fact that it is not user of Bonded Export Factory Scheme (BEFS), Bonded (Export) Manufacturing Warehouse (B(E)MW) or Bonded Input Supplies Warehouse Scheme (BISWS),
3. Financial statement if it is audited by external auditor,
4. Applicants must present the input-output coefficient that would be confirmed by MoI and,
5. If there is a byproduct that would be exported or sold in the local market, the applicant must indicate the number of the byproduct and the content of the raw material imported in the by product.


Appendix 3: Documentation and Procedural Requirements by ERCA for Voucher Reconciliation

1. The applicant should confirm the proper importation of the good by submitting documents like customs declaration for import, commercial invoice and the voucher book.
2. The beneficiary should also present input-output coefficient prepared by the producer exporter and confirmed by MoI, and documents confirming the export the commodity like customs declaration for export, commercial invoice and bank permit.

Source: Ethiopian Revenue and Customs Authority, 2005.

Appendix 4: Procedures for the Input Supply Agreement between Direct and Indirect Exporters

1. The applicant should submit the input supply agreement made between the indirect exporters and the direct exporter to MoI. This agreement should explicitly mention that if the export commodity produced using the raw material supplied or the final product delivered to exporter by the direct exporter is not exported on time, the direct exporter should bear the tax and duty exemption together with the fine.

2. After evaluating the request, the MoI will issue the input-output coefficient required to produce the input supplied by the indirect exporter using the imported goods and a certificate of entitlement to the incentive scheme and write a letter to ERCA to give the beneficiary a voucher book.

3. When the indirect supplier deliver the input/output to the direct supplier according to their agreement, the indirect supplier should collect the all taxes from the direct exporter. But the direct exporter has the right to claim ERCA for the refund of the tax paid.

4. The indirect exporter can import raw material based on the following conditions:
   a) If the indirect exporter will deliver the imported raw material to the indirect exporters or direct exporters without making any value addition, the tax and duty exemption recorded in the voucher book will be given up on the presentation of Insurance Bond equivalent to the tax and duty exemption on imported goods.
   b) If the indirect exporter is going to produce the input to be supplied to direct exporter using the raw materials imported through this scheme, the indirect exporter has to supply the produced input to the direct exporter within a year. If it is not possible to do so, the indirect exporter should apply to ERCA.
one month before the expiry of the export date deadline to get extension as per the proclamation.
c) If the indirect exporter has to deliver the imported raw material to the indirect exporters or direct
exporters without making any value addition, the indirect exporter has to provide the evidence that the
raw material is supplied to the direct exporter within a year it is imported to get the voucher clearance
and the insurance bond back. At the same time, the direct exporter has to export the goods produced
using such input within a year or during the extension period provided by ERCA.
d) If the direct exporter has a purchase order from abroad but does not have a factory to produce the
product, the direct exporter can ask the indirect exporter to produce the product for him. In such cases,
the two parties have to present the agreement they made for the same to get the voucher book in the
name of either of the two if they don’t have before. Like the other arrangements the product produced
by the indirect supplier using the imported material should be exported within a year the raw material is
handed over to the indirect supplier. If the raw material is bought in the local market, the two parties
can ask the duty drawback,

Source: Ministry of Industry, 2005

Appendix 5: Prerequisite Requirements by MoI to be the Beneficiary of BEF or BMW Scheme

| 1. Applicants should be engaged exclusively in the production of export commodities and not users of voucher scheme. |
| 2. Renewed business license for export/import or investment certificate for new applicants, and factory owner or manager’s recent photo. |
| 3. Financial statements of the factory if it is audited by external auditor. |
| 4. Two filled application forms prepared by MoI for this purpose. In these forms the applicant enters into commitment that the firms will export 100 per cent of the product and it is not user of the voucher scheme. Moreover, the applicant will state the current condition of the factory and its potential. |

Source: Ministry of Industry, 2005

Appendix 6: Standards Set by ERCA for a Factory to Use the BEFS.

| 1. The factory should have a separate input and final product warehouse that should be found in the same compound. |
| 2. The fence of the compound should be not less than three meters. |
| 3. All the gets into and out of the compound should be prepared in the way that allow ERCA to undertake its controlling responsibilities. |
| 4. A well-furnished office which is suitable for customs procedure implementation and control with Automated System for Customs Data (ACDUDA) handling. |
| 5. Insurance grantee for tax and duty payable for goods available in the factory. |

Source: Ethiopian Revenue and Customs Authority, 2005

Appendix 7: Prerequisites Required by ERCA to Use the BMWS

| 1. Warehouses which are used to keep imported raw materials and the final export commodity produced using the imported material until it is exported after fulfilling the formal customs procedure. |
| 2. User of Automated System for Customs Data (ACDUDA) handling, i.e., for recording imported raw material coming into/available in the warehouse, the number and type of finished products ready for export, finished products exported from the warehouse, and the amount of raw material wasted or leftover in the process of producing export commodity. The implementation such a system should be undertaken within six months after securing the permit from ERCA to use the scheme. |
| 3. A person who have license for bonded manufacturing warehouse and willing to pay the payments required, and |
| 4. Insurance grantee for tax and duty payable for raw materials coming in to the warehouse annually. |

Source: Ethiopian Revenue and Customs Authority, 2005

Appendix 8: Standards Set by ERCA for a Warehouse to Use the BMWS and BISWS
1. The factory and the warehouse should not share a wall with the compound fence or any house in the compound,
2. The door of the warehouse should be convenient to be locked by ERCA and the owner for BMWS. But in the case of BISWS it should be located by the owner only.
3. If the warehouse has more than one door, the outside door should be convenient to be clocked property while all the other doors should be able to be locked inside. The doors in general should be prepared with excellent quality,
4. The width of the window should be proportionate to the width of the warehouse.
5. Convenient vehicles delivery ram with platform,
6. Alarm network in all the doors and windows of the warehouse to indicate the level of security where the warehouse is located and,
7. Installed fire protection arrangements.

Source: Ethiopian Revenue and Customs Authority, 2005

Appendix 9: Prerequisites Required by MoI to be the Beneficiary BISWS

1. Renewed business registration certificate from the Ministry of Trade (MoT) for local applicant who has got the permission from the foreign procures to distribute the product locally, or investment license form Ethiopian Investment Commission (EIC) for foreign applicant to engage in such activities. If the applicant is a foreign firm, it should be the producer of the products or components abroad, and it has to provide full address of the company including the name of the company, the country and the city where the company is located.
2. Recent photo graph of the applicant’s company manager or owner
3. Two filled application forms prepared by MoI for this purpose. In these forms the applicant enters into an agreement that it will import raw materials and components which fulfill the international quality standards, demanded by export producers and will hold enough of these items in stock; provide capacity building support for technology transfer, to export back expired raw materials, to provide laboratory certificate from certified laboratory if the company import chemicals, to produce these products in the country within two to five years and others. Moreover, the applicant will state its current condition and it potential employment when the company start producing these products locally.


Appendix 10: Documentation and Procedural Requirements to Get Export Credit Guarantee

1. Export credit guarantee request application cover letter written by financing bank addressed to the DBE,
2. Exporter’s (borrower’s) application letter for export credit filed with financing bank.
3. Complete loan approval form (LAF) prepared by the financing bank including related annexes,
4. Renewed business license,
5. Valid purchase order from foreign buyer(s),
6. Export proceed tickets evidencing export receipts over the recent 12 months prior to the application date,
7. Recent financial statements of the borrowing company,
8. Exporter’s letter of declaration stating that all information provided and documents submitted to the financing bank are correct and true to the best knowledge of the borrower.
9. Credit information of the client (CIC) obtained from NBE within less than one month period of application for DBE’s Export Credit Guarantee


Appendix 11: Required for External Financing Scheme

1. Document showing the name, nationality and full address of the supplier or foreign partner;
2. The purpose of the suppliers’ or foreign partners’ credit and copy of the duly singed and concluded contract;
3. The suppliers’ or foreign partners’ credit repayment mechanism and schedule;
4. The relationship existing between the supplier or foreign partner and the borrower and;
5. Such other particular as may be deemed necessary by NBE.

Appendix 12: Documents Required for Franco Valuta Import

1. Franco-Valuta application duly completed and signed by an applicant in three copies,
2. Shipping documents such as bill of lading, airway bill and couriers, as the case may be and,
3. If the duty free imported items are to be sold locally the concerned parties have to submit sales agreement.