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P. O. Box 2458, Mexico Square, Addis Ababa, Ethiopia
Tel: +251 11 551 8055, Fax: +251 11 551 1479, Email: info@addischamber.com
www.addischamber.com
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- Analyze and assess the business, investment, and macroeconomic environment of the country;
- Identify issues of competitiveness and investment opportunities as well as the comparative advantages and level of business competence of Ethiopian companies against other economies; and
- Analyze public policy and the regulatory environment to come up with concrete evidence and policy recommendations for the consumption of Public-Private Dialogue forum.

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Tax Administration Constraints: the Case of Small and Medium Size Enterprises in Addis Ababa*

ABSTRACT

This study aims to investigate tax administration constraints in Addis Ababa with focus on small and medium size enterprises by identifying issues and constraints in tax administration and assessment. The study identifies problems associated with taxpayers' and tax collecting authorities in the city. The research used qualitative and quantitative research designs and employed questionnaires, focus group discussion and key informant interviews for primary data collection and also used secondary data from different sources.

The study identified many constraints that taxpayers are facing. Among others, tax administration offices' inefficiency, reluctance to respond taxpayers' questions, limited tax assessment and administration knowledge and skills, and corruption and unethical practices are the major ones. Besides, the tax laws and regulations are complex and not enforced equally and fully on all taxpayers, causing prevalence of business entities not paying taxes. This apparently results in uneven playing field. Consequently, the tax system at present is neither fair nor transparent, and increases compliance cost. In case of dispute, the appeal process is excessively long and the tax authority's decision is irreversible. The Value Added Tax (VAT) administration and compliance system is not well designed, and VAT has created economic distortion among VAT registered and non-registered taxpayers. Cash registration machine administration and the reporting system are big headaches for taxpayers. With regard to taxpayers, there is lack of awareness of tax laws and documentation.

Based on the above and other findings, the study forwarded recommendations, such as, ensuring fairness and transparency in tax collection and administration, enhancing the efficiency of tax authorities by use of modern technologies and upgrading human resources, conducting extensive awareness creation programs, and enforcing tax laws in a fair and equitable manner.

* Zeleke Ayalew holds MA in Economics specialized in Applied Trade Policy Analysis from Addis Ababa University and is a PhD candidate in Development Studies at Addis Ababa University.
Dawit Tadesse is Assistant Professor in Accounting and Finance in different Universities.

I. INTRODUCTION

Tax administration is the administration, management, conduct, direction, and supervision of the execution and application of a government, country or state's taxation laws and related statutes. As governments depend on tax revenue collected from various taxpayers, tax administration should be effective in ensuring high compliance by taxpayers and efficient in minimizing administrative cost. Robust tax administration not only requires strong technical capacity by the administrative authority but also a well-designed tax laws.

The government of Ethiopia has revised taxation laws for several times to ensure sound tax laws and broaden the tax collection base. Accordingly, enforced federal income tax, excise tax, value added tax, and tax administration proclamations aimed at improving tax collection, broadening the tax base, to make the tax system fair, modern and efficient. On the other hand, due to implementation inefficiency of tax laws, the business community are facing challenges in due courses of tax administration and assessment. Ethiopia's rank in paying taxes in World Bank doing business report is declining, it ranked 40 in 2012 and now down to 130 in 2019 from 190 countries.

Specifically, there are a number of tax administration constraints in Small and Medium Enterprises (SMEs) in Addis Ababa. The administration constraints affect entrepreneurship development and government revenue. Based on principle of mutual responsibility, a tax administration mechanism that reduces compliance costs is important for both tax authorities and taxpayers.

This study focuses on the most pressing and critical issues and constraints of tax administration that challenge the business community, specifically, SMEs in Addis Ababa. Major factors that account for inefficiency and dissatisfaction as well as legal and institutional constraints are identified.

1.1 Objectives of the Study

The objective of this study is to assess problems, weaknesses and limitations of small and medium size enterprise taxpayers, tax authority administrations, and laws as sources of inefficiency and dissatisfaction to forward recommendations that bring about efficient, fair and transparent tax administration.

1.2 Scope of the Study

The study has made a thorough review of available researches and studies on the subject and assessed the existing laws, regulations, and directives on taxation and administration. Based on the views of the selected business enterprises feedback, performances of taxation laws enforcing authorities are evaluated with the objective of identifying gaps. Administrative bottlenecks in tax administration, specifically in small and medium enterprises, are identified and the tax appeal system evaluated.

1.3 Methodology

The entire study has been conducted on participatory and process-oriented manner by involving all partners and stakeholders at all levels. Accordingly, the consultant used participatory assessment methods in generating both secondary and primary data as well as both qualitative and quantitative data on field.

1.3.1 Data Type and Sources

Primary data were collected from SMEs, Ministry of Revenues, Addis Ababa Revenues Bureaus and non-governmental offices using questionnaires, Key Informant Interviews (KIIs) and Focus Group Discussions (FGDs). Secondary data were gathered from published and unpublished sources found at Ministry of Revenues, Addis Ababa City Revenues Bureau, Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA), Ministry of Finance and Economic Cooperation, and websites.

The research team held FGDs with 21 people from Addis Ababa City Administration tax offices and selected medium and small taxpayers. The study team also interviewed 10 KIIs selected from the various segments of stakeholders. The lead, along with research assistants, handled the KIIs using a predesigned semi-structured questionnaire.

1.3.2 Sampling Technique and Sample Size Determination Sampling Technique

In 2018 the total number of SMEs in Addis Ababa was 193,200 (Ministry of Trade, 2019). In order to meet the requirements and objectives of the study, a theoretical sampling technique was used for the selection of the ultimate sampling units in which each business firm had an equal chance of being selected for the sample. Thus, sub-cities and medium taxpayer offices were treated as stratum for which the major findings of the sample questionnaire will be reported. The primary sampling units were sub-cities, medium tax payers. The number of business firms in sub-cities and medium taxpayers' offices were determined utilizing the method of purposive sampling. As there is no detail[1] about the distribution of business firms across woreda, the team decided to sample equal number of firms in each sub-city.

Sample Size

The research team used purposive/theoretical sampling and the determination of the sample size is a function of various factors. These included the level of aggregation for reporting the study result, total cost of the study, the level of precision, logistical feasibility and time. However, since no indication was given by the client in this regard, the team applied purposive sampling technique. The rationale for employing purposive sampling technique and taking 5 (50%) small taxpayer offices with 45 taxpayers, and three medium taxpayer offices from each sampled with 30 taxpayer sample as representative, was due to the similarity of the tax authority office and taxpayers' nature. From medium taxpayers, 17 were engaged in service sector, 3 in agriculture, and 10 in industry sectors. From small enterprises, 32 were in service sector, 11 in industry, and 2 in agricultural trading.

Selection of Sampling Units (sub-cities)

The selection of sampling units (sub-cities) was carried out using purposive sampling techniques within the Addis Ababa city. The sampled woredas were representatives of the study sub-cities.

It is believed that the sub-cities and woredas in the city can be classified in terms of their access to services on the basis of their distance from centre, their revenue sharing capacity, geographical area, settlement pattern, population density, and trade practices.

Table 1: Sample size for sub-cities

No.	Name of Sub-city	Minimum Sample Size
1	Bole Sub-city Small Taxpayers' Office	9
2	Addis Ketema Sub-city Taxpayers' Office	9
3	Akaki Kality Sub-city taxpayers' Office	9
4	Yeka Sub-city Taxpayers' Office	9
5	Kirkos Sub-city Taxpayers' Office	9
6	Merab Adds Ababa Medium Taxpayers' Office	10
7	Addis Ababa No. 1 Medium Taxpayers' Office	10
8	Addis Ababa No. 1 Medium Taxpayers Office	10
Total		**75**

[1] Although there is a survey about small and medium business enterprises from Central Statistics Agency at national level (CSA, 2014), to our knowledge the data are not available at detailed geographic level.

1.4 Organization of the Study

The report is divided into six parts. Part one deals with introduction and rationale of the study, objectives, scope of the study, sampling technique and sample size determination, methods of data analysis and organization of the study. Part two dwells with concepts of tax administration, principles of taxation, tax administration of experiences of selected countries, and a brief survey of tax administration constraints in Ethiopia. The third part of the study is about taxation in Ethiopia. It discusses the tax laws in Ethiopia and tax administration in detail. In the following part of the study are assessed the contributions of the business community to national and Addis Ababa city revenues. Part five summarizes the findings of the study and discussions. Conclusions and recommendations are the final part of the study.

II. Literature Review

2.1 The Concept of Tax Administration

Tax administration is the administration, management, conduct, direction, and supervision of the execution and application of a government, country or state's taxation laws and related statutes. Governments enforce taxation to raise revenues for economic development, achieve price stability, and ensure employment as well as other social development for citizens.

The core tasks of tax administration are centered on the implementation and enforcement of tax legislation and regulations. These activities include identification and registration of taxpayers, processing of tax returns and third-party information, examination of the completeness and correctness of tax returns, assessment of tax obligations, and collection of taxes and provision of services to taxpayers.

Tax administrations operate in societies that are rapidly changing and have to fulfill increasing demands and growing expectations from their stakeholders, including new demands from taxpayers for sophisticated government services. Rapid economic development and ever-increasing expectations on the part of taxpayers make it necessary for a tax administration to redefine its strategic course. Its relationship with taxpayers must be laid down in a system of rights and obligations. The efficient application of tax administration increases revenue, reduces nation dependency on aid and income inequality as well as realize fast economic and social development.

2.2 Tax Components and Classifications

The two components of tax are tax base and tax rate. Tax base is all about the items or activities subject to tax. Tax bases are usually measured as a dollar amount to which a tax rate is applied. Tax rate is the percentage imposed on tax activity/tax base. Taxes are often described as having a broad base or a narrow base. A broad-based tax is one that taxes most of the potential tax base. For example, a broad-based sales tax is one that applies to almost all purchases of goods and services. A narrow-based tax applies to fewer items. Most countries have a narrow-based sales tax that applies only to goods, not services, and has exemptions for things like food, housing and medicine. At any given tax rate, a broad-based tax will obviously raise more revenue than a narrow-based tax.

Taxes can be classified into two – direct and indirect. Direct taxes are shouldered by the taxpayer and include individual income tax, corporate tax on net income of companies, estate and gift tax on inherited wealth from one generation to the next, and real property tax imposed by a local government for land ownership. Indirect tax mainly refers to tax that can be shifted or passed on to others by the taxpayer. The indexes are custom duties (tariffs) levied on imported goods, excise taxes on goods like tobacco, alcohol, telephone services, air travel, luxuries, sales tax, VAT (value added tax) — a flat percentage tax on all retail sales of a broad category of goods, fixed tax imposed on any company engaged in business or any person pursuing an occupation or profession, and others such as gross receipt tax, documentary stamp, amusement tax.

2.3 Taxation Principles

A tax system is based on principles. The principles are equity, progressivity, simplicity and efficiency. The equity principle implies that taxation must be imposed in accordance with the ability to pay, and has two dimensions: horizontal and vertical. In horizontal equity individuals are considered identical and should be treated the same, paying the same tax. In vertical equity individuals with greater ability to pay or who are better off or receive greater benefits from government services pay more tax. Also, a tax system can either be progressive or regressive. Income tax, for example, is generally progressive in character, with tax free threshold for the smaller income receivers and a graduated rate schedule. Besides, a taxation system must be as simple as possible with uncomplicated legislation. However, often tax systems are complex with a large number of taxes and levies imposed for revenue considerations; and tax legislation is necessarily complex in character. Finally, a tax system must be efficient. No sound fiscal policy can be effective, if the tax administration system is inefficient or corrupt.

2.4 Tax Non-Compliance and Tax Avoidance

Tax evasion is non-compliance with tax laws by failing to pay taxes that are due. In the absence of strong moral constraints against noncompliance with tax laws and payment of government charges, the incentive for evasion by individuals depends on the costs and benefits expected from noncompliance. The benefits of tax evasion tend to increase with the amount of tax, or money in general, saved by not complying with the rules. This gets more serious in the case of increasing marginal tax rates as the magnitude of the tax base increases. The costs of noncompliance vary with penalties involved and the probability of being caught by the authorities, and the strength /efficiency/ transparency of the legal procedure after being caught.

Tax evasion should be distinguished from tax avoidance, which is the reorganization of economic activity, possibly at some cost, to lower tax payment. Tax avoidance is legal, tax evasion is not. Ensuring the collection of the right amount of tax revenue and the legal enforcement against tax evasion requires strengthening the administrative machinery for the tax system. Tax collection and enforcement of the legal penalties involve recruitment of personnel, establishment of offices, and acquiring machines such as computers and software, etc.

2.5 Experiences of Selected Countries

2.5.1 Tax administration in Kenya

To improve domestic resource mobilization, the Kenyan Government has implemented initiatives and reforms that modernize its tax system. Before 2003, the Kenyan Revenue Authority (KRA) achieved little in digitalizing tax administration that paves the way for profound changes in tax policy design and revenue administration. After 2003, however, the authority laid the groundwork for the current momentum of digitalization and reforms in tax design and revenue administration launched under the Revenue Administration Reforms and Modernization Program.

The reform was based on six components: customs reform and modernization, domestic taxes reform and modernization, road transport reform and modernization, business automation, human resources revitalization, and infrastructure development which describe the main digitalization initiatives that preceded the iTax system and KRA M-Service.

Technological revolution was the prerequisite for the development and adoption of the iTax system and the KRA M-Service. The financial sector has become more inclusive, banks have integrated the Digital Financial System as an efficient platform to manage micro-savings accounts, and a retail payments system that does not require a bank account has emerged. The Kenya Revenue Authority implemented the Withholding VAT Agency System in October 2003. It was introduced to capture credit, zero credit, and non-filers and reduce uncollected debts. In July 2005, the Electronic Tax Register System was introduced to enforce record keeping for business transactions.

2.5.2 Egypt's tax administration

Egyptian government revenues depend importantly on indirect taxes (imports and sales) and direct taxes (business and personal incomes). In addition to the revenue it provides, each tax affects the efficiency of the decisions that Egyptian consumers and producers take, the distribution of well-being in Egyptian society, and the burden of tax administration. The two indirect taxes have been reformed recently and the statutes are broadly consistent with good performance in this area. There is, however, scope for further efficiency gains by eliminating taxation of various inputs (cascading).

There is also the potential for increasing efficiency and equity and for easing the burden of administration by changing the structure of rates. Statutory tax rates on business income are conformable with international practice, but the statutory system of deductions that determines the tax base has very complicated effects on the incentives to invest. There are large tax subsidies to investment through large established corporations, while non-corporate businesses or new, small corporations experience large tax penalties. Within types of finance, there are large subsidies to debt finance and favorable tax treatment of financial intermediaries, especially pensions and insurance. There are large distortions to individual portfolio decisions.

Egypt issues small and medium tax treatment law in order to encourage the informal economy to enter the tax system. Most of the Egyptian economy is outside the formal tax framework. Egypt is working on setting an electronic tax operation system and restructuring the tax authority to overcome obstacles that may arise and avoid problems in the tax value estimations (Mohamed Maat, 2018.). Egyptian tax reform agenda include that every business faces the same tax burden: no exemptions, tax holidays, or special treatments for large or foreign businesses involving tax cuts and widening of the tax base, clear rules for filing and severe punishment for non-compliance, effective tax collection and tax refund methods and effective tax appeals process to ensure the protection of the taxpayers' rights.

Tax administration requires a penalty structure that ensures that taxpayers find it generally desirable to comply with the tax system. Under the Egyptian statutes, however, there is little or no financial incentive to pay taxes in a timely fashion. Furthermore, there is casual evidence that actual economic behavior in Egypt deviates from what would be predicted from an examination of the statutes, suggesting that there is a large gap between what the statutes specify and how the tax administration works.

2.5.3 Ugandan tax administration

Experiences from several cities of Uganda reveal that administrative reforms to improve identification, assessment, and collection of tax liabilities can be as important as tax policy to raise revenues. In Kampala, for example, reforms to enhance revenue collection capacity between 2011 and 2015 have allowed the Kampala Capital City Authority (KCCA) to increase its own-source revenue by over 100% (Kopanyi, 2015).

Administrative capacity was boosted by increasing staff capacity through recruitment and training, digitising databases to reduce the potential for human error, and bringing revenue collection in-house.

At the same time, tax compliance is encouraged by improving tax services and through communication campaigns that illustrate what citizens tax payments are being used to finance. Underlying these reforms is an understanding of taxpayers as clients who would be willing to pay their taxes voluntarily in exchange for valuable public goods and services.

2.5.4 Tax administration in Tanzania

The Tanzanian government has been carrying out tax reform. Digitization is one of those measures taken. Manual recording of revenue data by many local authorities results in substantial losses from human error and inconsistency between databases. Reforms to digitise tax collection at the national level through the Tanzanian Revenue Authority's iTAX system have been associated with ten-fold increase in revenues between 1996 and 2007 (International Tax Compact, 2011).

The government applied careful assessment of the value of outsourced tax collection. The impact of private collection of local government revenues since 1996 in Tanzania has been mixed, while in some councils revenues from tax collection increased and became more predictable. In others, outsourcing collection has been accompanied by high levels of corruption and large profit margins for private collectors at the cost of government revenues (Fjeldstad, Katera, and Ngalewa, 2008). In many cases, it may be the case that capacity development to facilitate internal tax collection by local government departments is the most cost-effective option in the long run.

As in many developing countries, limited voluntary compliance of taxpayers in Tanzania is closely related to a lack of trust in the local government revenue systems and the benefits they provide. Survey data from six councils suggest that the perceived lack of spending on public services is the main reason citizens say they are not willing to comply with local taxation (Fjelstad et al., 2004).

As such, tax compliance in Tanzania requires significant investment in improving citizen's trust, both in the functioning and fairness of the tax system, and in the spending of tax revenues on public services. By linking taxation closely to public investment, increased revenue collection does not have to be an inherently unpopular policy.

2.5.5 Tax administration in Germany

There are many types of taxes in Germany, including income tax, VAT, trade tax and more. The Federal Central Tax Office issues uniform and permanent Tax Identification Number (TIN) to every individual who is subject to tax for purposes of unambiguous identification in taxation procedures. Taxpayers and third parties who must submit a taxpayer's data to the revenue authorities must indicate this TIN on applications, declarations or notifications submitted to the revenue authorities (sections 139a and 139b of the Fiscal Code).

The German tax law is peculiar in that a "standard tax" is determined by the state tax administration on uniform rules for all municipalities. This standard tax is obtained by multiplying the "ratable value" with a "base rate". The assessment is made for every single piece of land registered in the cadaster. The state tax administration notifies the owner/beneficiary and the municipality in whose jurisdiction the property is located. Changes of this standard assessment are extremely rare and occur only in cases of sale or change in the use of the property (or change in federal legislation). For the former East Germany, the procedure is slightly different in that more recent ratable values are not available. The tax is, therefore, based on a "surrogate ratable value" instead. The assessment of the standard tax by the state tax administration is the basis for levying the municipal tax. The municipality applies a "leverage ratio" to this standard tax. The ratios may vary among municipalities.

2.5.6 Tax administration in Switzerland

The Swiss tax system mirrors Switzerland's federal structure which consists of 26 sovereign cantons with 2,352 independent municipalities. Based on the constitution, all cantons have full right of taxation, except for those taxes that are exclusively reserved for the federal government. As a consequence, Switzerland has two levels of taxation — the federal and the cantonal/communal levels. The reform of the income tax system implemented in recent years provided for harmonization of the formal aspects of the various cantonal tax laws, for example, determination of taxable income, deductions, tax periods, and assessment procedures. However, the cantons and municipalities still have significant autonomy for the quantitative aspects of taxation, particularly with respect to determining the applicable tax rates. Consequently, the tax burden varies considerably between cantons/municipalities.

The Swiss federal government levies corporate income tax at a flat rate of 8.5% on profit after tax of corporations and cooperatives. For associations, foundations, and other legal entities as well as investment trusts, a flat rate of 4.25% applies. At the federal level, no capital tax is levied.

The Swiss Federal Tax Administration has issued safe harbor rules for thin capitalization purposes that apply to related party debt. Third-party financing is not affected by these rules. Specifically speaking, a unique asset-based test is used to determine whether a company is adequately financed. The thin capitalization rules require that each asset class must be underpinned by a certain equity portion (generally expressed as a percent of the fair market value but often the lower book values suffice).

To minimize the effect of double taxation in Switzerland and abroad, Switzerland has concluded tax treaties covering direct income taxes with all major industrial countries and many other countries. Most of these treaties are patterned on the principles of the OECD model convention which defines where the income or the assets are to be taxed, and also describes the method for the elimination of double taxation. Switzerland adopted the tax exemption method, exempting income allocable to a foreign country from taxation in Switzerland. The respective income and assets are only considered for the calculation of the applicable tax rate (progression). On certain income streams (dividend, interest, and license fees) both the state in which the income is earned and the state of the recipient's residence are entitled to tax them. However, the double tax treaty limits the right of taxation of the source state, and the source tax can be credited against the tax levied in the recipient's state of residence.

2.5.7 Brief survey of studies on tax administration constraints in Ethiopia

There are few researches conducted on the Ethiopian tax law. As tax is the concern of law, economics, accounting and management, researchers from each discipline have been attempting to explore various issues of tax. In this section, a short review of major research works on tax issues in Ethiopia is presented.

The power of taxation of the state is enshrined under the Constitution of the Federal Democratic Republic of Ethiopia (FDRE). Articles 96 to 100 of the constitution exclusively provide taxation powers to federal and regional governments. The very purpose of such provisions is to allocate taxation powers between the federal and regional governments. Tadesse Lencho, who studied the constitutional provisions in relation to taxation and the limits[2], explored the constitutional limits of tax power, including the principle of tax legality, fidelity to sources of taxes and procedural fairness, intergovernmental immunity, principle of non-discrimination, and adverse impacts and benefit principles.[3] Moreover, he uncovered the organization of Ethiopian tax laws and their sources. The tax laws emanated from proclamations, regulations, directives, advanced-rulings, administrative publications and cases.[4]

Azime Hassen has examined the responsiveness of agricultural taxation to the agricultural GDP. In this research, Azime analyzed the status of agricultural income tax by taking the statistics of the years between 1980 and 2010. He found out that "the growth in the agricultural GDP does not have a significant impact on the growth of agricultural income tax collection."[5] In other words, it means that even though the agricultural sector has shown growth, the revenue collected from agricultural income tax did not increase proportionally.[6] As a result, he recommended, among others, for reform of the tax system, taking a policy measure to put the agriculture sector under the federal tax administration, and improving the tax administration in order to solve tax evasion and other malpractices.[7]

There are also research works on the practice of tax laws in specific types of income tax categories in various towns. For example, research carried out on Category C taxpayers in Halaba City Administration showed that taxpayers felt

2 Taddese Lencho, The Ethiopian Tax System: Excesses and Gaps, Michigan State International Law Review, Vol. 20, No. 2, 2012, pp. 327 – 380

3 Ibid

4 Ibid

5 Azime A. Hassen, Agricultural Taxation and Economic Growth in Ethiopia, paper presented at the 5th International Conference of the African Association of Agricultural Economists, September 23-26, 2016, Addis Ababa, Ethiopia

6 Ibid, p. 17

7 Ibid

that they were paying beyond their ability, lost trust in tax officers and overall tax estimation, assessment and collection.[8] The researchers concluded that the tax authority was not that effective in tax assessment and collection.[9] The examination of voluntary compliance of Category C taxpayers in Arba Minch also showed that lack of awareness was the leading factor for absence of compliance with the tax law.[10] Solomon Legesse studied tax administration system in Gamo Gofa Zone and found out that low level of taxpayers' awareness toward value added tax and lack of commitment to comply with the taxpayers obligations was a big hindrance for effective assessment and collection of taxes.[11]

There are yet studies in problems of value added tax. Simon Tareke et al examined the problems in the practice of value added tax in Tigray. The study revealed that there was a bridge between what the law says and the actual acquaintance and adherence of taxpayers toward the value added tax law. The researchers described the situation as low registration of taxpayers, decline in the number of VAT registered taxpayers, wrong perception of taxpayers toward the objective of the VAT law.[12] Still, a study was conducted in business house rental taxation in Tigray. The findings of the study showed that the business house rental taxpayers did not even have knowledge of the law governing business house rental tax.[13]

The issue of tax foreclosure is also a discourse among some writers. Kinfe Mikael has raised the issue of tax foreclosure in Ethiopia. Tax foreclosure is an instance where the tax authority is allowed to recover payment of tax through foreclosing the property of the taxpayer in cases where the latter failed to pay the tax due to him.[14] In this article, the writer explored the legal regime governing the power of tax authority to foreclose the property of the taxpayer. He asserted that the power of tax foreclosure must be questioned in the light of constitutional rights of privacy, property and access to justice.[15] Tadesse Lencho also discussed whether financial institutions right of foreclosure sale is subject to VAT or not.[16] He attempted to portray the divergence of financial institutions (banks) and tax authorities over

[8] See Ayele Bogale Fikade1, Getnet Begashaw and Bekalu Tefera, *Effectiveness on Tax Assessment and Collection Practice of Category "C" Taxpayers: The Case of Halaba City Administration, Issue - 13, Vol-07, pp. 65-85, Jan-June 2017*

[9] Ibid

[10] Daniel Mehari, *Factors Affecting Voluntary Compliance of Category 'C' Taxpayers' Attitude of Arba Minch, SNNPR, Ethiopia*, International Journal of Scientific and Research Publications, Volume 7, Issue 6, June 2017

[11] Solomon Legesse and Abdul Majeeb Pasha Shaik, *A Study on Assessment of Tax Administration System on Category 'B' Taxpayers, Gamo Gofa Zone, SNNPR, Ethiopia,* Research on Humanities and Social Sciences, Vol.7, No.19, 2017

[12] Simon Tareke, Yibraha Hagos and Abiy Kasa, Problems and Prospects of Value Added Tax (VAT) Implementation in Tigray Regional State, Research Journal of Accounting, Vol. 1, No. 1, November 2013

[13] Teshale Berhane, Mohammedawol Yesuf, Assessment of the Challenges and Opportunities of Business House Rental Income Taxation in Regional State of Tigray, International Journal of Science and Research, Volume 4 Issue 8, August 2015

[14] Kinfe Mikael , An Introduction to the Ethiopian Law of Tax Foreclosure: A Commentary

[15] Ibid, pp. 31 – 35

[16] Taddese Lencho, To Tax or Not to Tax: Is that Really the Question? VAT, Bank Foreclosure Sales, and the Scope of Exemptions for Financial Services in Ethiopia, MIZAN LAW REVIEW, Vol. 5 No.2, December 2011

the exemption or otherwise of financial services from VAT or not. The former asserted that financial services like foreclosure sale must be exempted from VAT, whereas the latter claimed that financial foreclosure sale must be subject to VAT. In fact, the writer did not attempt to give a settlement solution for these polarized views among the financial institutions and tax authorities.

Wollela Abehodie studied the administration of value added tax in Ethiopia.[17] In her article Wollela stated that the system of tax administration must be improved in order to ensure the effectiveness of VAT law. The main problems in VAT lay in "taxpayers' identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties and VAT invoicing."[18] She went on to state that there was low awareness among the society with regard to tax and trust between the taxpayer and the administration.[19] As a result, she called for the government to make "sufficient resources available for the administration of VAT." [20]

Wollela has also assessed the system of VAT withholding[21] and its implications on revenue collection and refund. VAT withholding was introduced with the view to addressing non-compliance and increasing revenue collections. She argued that the application of VAT withholding mainly targets non-compliant small businesses and enterprises. However, VAT withholding is designed to govern large businesses in Ethiopia.[22] Wollela investigated VAT withholding in the light of the practice of Latin American countries which have adopted the same. Her study showed that VAT withholding is not efficient and does not meet its objective. As such she suggested the government to "consider the possibility of abolishing the VAT withholding scheme and adopting an alternative approach for effective management and control of VAT non-compliance."[23]

Hailemariam Mamo has on his part assessed and analyzed the implementation of VAT and its problems in Ethiopia. The summary of his findings showed that VAT problems in Ethiopia are attached to the weak tax administrating authorities that strictly apply the law, are unaware of taxpayers and those who attempt to escape the prescriptions of VAT (non-compliant tax payers), and the lack of commitment

[17] Wollela Abehodie Yesegat, Value Added Tax Administration in Ethiopia: A Reflection of Problems, E-Journal of Tax Research(2008) vol. 6, no. 2, pp. 145-168

[18] Ibid, p. 161

[19] Ibid

[20] Ibid

[21] VAT withholding is introduced in Ethiopia in 2009 (See Ministry of Finance and Economic Cooperation, Directive Number 27/2009.) VAT withholding requires selected government institutions and public enterprises to withhold 100% of the VAT on their purchases and remit the amount to tax authorities within 30 days from the end of the month in which the VAT was withheld. Cited by Wollela Abehodie, Value Added Tax withholding in Ethiopia: Implications for Revenue Performance and Refund (Preliminary findings), Paper prepared for the Symposium on VAT in developing countries: Policy, Law and Practice, Pretoria, South Africa

[22] Ibid, p. 22

[23] Ibid, p. 24

on the part of consumers to purchase goods and services with VAT.[24] The main causes of such problems were not simply attached to tax laws. The other causes included "lack of awareness and deliberate resistance of the business community not to comply with the VAT laws, absence of sufficient materials and skilled manpower, the negative attitudes of some business societies towards VAT, weak purchasing powers of the society that forced them to search for goods and services that excluded the value of VAT, and weak system of auditing performance."[25] The same problems were revealed in other studies conducted in various sub-cities of Addis Ababa.[26]

III. Taxation in Ethiopia

Taxation in Ethiopia has a long history, though with limited sources of statutes. The modern taxation law in Ethiopia has its roots back to the first year of coronation of Emperor Haile Sellassie I, when excise and consumption taxes have been declared in 1931.[27] Except for the interruption of the Italian occupation, the Ethiopian government has constantly issued various tax legislations with various degrees of hierarchy. Sometimes, it is hard to trace all the pieces of tax legislations. Tadesse Lencho observed the difficulty of collecting and studying tax laws in the following manner:

[…tax laws are some of the most frequently revised pieces of legislation in Ethiopia, one has to literally review hundreds, perhaps thousands of individual pieces of tax legislation to piece together and understand the development of modern taxation in Ethiopia. The task is undertaken with the lingering suspicion that something might have slipped through one's hands, so disorganized the tax laws have been.][28]

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[24] Hailemariam Mamo, Implementation of Value Added Tax and Its Related Problems in Ethiopia" (The Case of ERCA), Addis Ababa University, Unpublished MBA thesis, June 2011, p. 88

[25] Ibid

[26] See Getachew Assefa's Tax Assessment and Collection Practices of Category "A" Taxpayers in Arada Sub City, St. Mary's University College, Unpublished MBA thesis, February 2013; Abeba Zeleke, Assessment of Tax Administration with focus on Tax Assessment and Collection Procedure in case of Nifas Silk Lafto Sub City Small Taxpayers Branch Office, St. Mary's University College, Unpublished BA thesis, May 2013; Yemisrach Chane and Hayat Mohammed, An Assessment on the VAT Collection Problem of ERCA in the Case of Mercato No.1 Tax Payers Office, St. Mary's University, Unpublished MBA thesis, June 2014

[27] Tadesse Lencho. 2012. Towards Legislative History of Modern Taxes in Ethiopia (1941 – 2008), JEL, Vol. 25, No. 2, pp. 104 – 158. This article surveyed the detailed account of legislative history of Ethiopian tax laws within the time specified.

[28] Ibid, p. 107

3.1 Types of taxes, proclamations and institutional frameworks

The taxes that are in use in Ethiopia are direct taxes (income tax, withholding tax, stamp duty, petroleum tax) and indirect taxes (value added tax, excise tax, turnover tax, import duty tax). Many of these taxes came into existence during the early years of modern tax legislation in Ethiopia. There are yet laws like the value added tax which was introduced fifteen years ago.

Table 2: Types of Taxes in Ethiopia

Types of taxes in Ethiopia		
No.	Direct Taxes	Indirect Taxes
1	Tax on Income from Employment/ Personal Income Tax	Turnover Tax
2	Business Profit Tax	Excise Tax
3	Tax on Income from Rental of Buildings	Value Added Tax
4	Tax on Interest Income on Deposits	Customs Duty
5	Dividend Income Tax	Stamp Duty
6	Tax on Income from Royalties	
7	Tax on Income from Games of Chance	
8	Tax on Gain of Transfer of certain Investment Property	
9	Tax on Income from Rental of Property	
10	Rendering of Technical Services outside Ethiopia	
11	Windfall tax	
12	Agricultural Income Tax	
13	Land Use Tax	

Different types of taxes were promulgated in Ethiopia through various proclamations over the years.

Income Tax Proclamation: As far as the history of the laws governing income taxation in Ethiopia go, it is said to have started with the Personal and Business Tax Proclamation No. 60/1944 which provided for income taxation in modern form as opposed to the traditional forms of taxation of earlier times. This proclamation was replaced by Proclamation No. 107 of 1949, which was replaced seven years later by the Income Tax Decree No. 19 of 1956. Next, Income Tax Proclamation No. 173/1961 was enacted followed by Proclamation No. 255/1967.

Proclamations No. 77/1976 and 152/1978 were adopted as amendments to proclamations No. 173/1961 and 255/1967 during the Dergue. These two amendments changed the income tax structure levied on agricultural activities, and thus introduced rural land use fee and tax on income from agriculture (which had been exempted from taxation by the Income Tax Proclamation No. 255/1967). Furthermore, Special Decree No. 18/1990 was passed thereby changing the rate of taxation on business income. The transitional government of Ethiopia adopted Proclamation No. 30/1992, thus amending the previous laws on personal income taxation. This proclamation was further amended by the Income Tax Amendment Proclamation No. 107/1994, which amended the tax on income from business and other profits, among other things. The currently operating laws with regard to income taxation in Ethiopia are the Income Tax Proclamation No. 286/2002 and Income Tax Regulation No. 78/2002.

At present the Ethiopian income tax law is governed by Federal Income Tax Proclamation No. 979/2016. This proclamation is the latest and the most comprehensive tax law compared with earlier income tax laws of the country. In particular, it repeals the earlier Income Tax Proclamation No. 286/2003, Mining Income Tax Proclamation No. 53/1993, Petroleum Operation Income Tax Proclamation No. 296/1986, and all the amendments. All categories of income tax laws, including mining and petroleum operation income tax, were replaced by this proclamation.

A look at the Income Tax Proclamation of 2016 reveals that income tax has global jurisdiction in Ethiopia on residents, whereas it has a source jurisdiction on non-residents. Accordingly, the income tax law is applicable to residents of the Federal Democratic Republic of Ethiopia with respect to their worldwide income. Wherever a resident earns his/her income from, he/she is bound by the provisions of the Income Tax Proclamation of 2016. On the other hand, the proclamation has applicability on non-residents of the country to the extent that the source of their income is in Ethiopia. Therefore, where the source of a portion of a certain non-resident's income is in Ethiopia, he/she will be liable to pay tax according to Ethiopian income tax laws on that portion the source of which is in Ethiopia.

For the purpose of income taxation, residents are defined as those individuals who:

i. Have domiciles within Ethiopia;
ii. Have habitual abodes in Ethiopia; and/or
iii. Are citizens of Ethiopia and consular, diplomatic or similar Ethiopian officials posted abroad.

As far as bodies are concerned, they will be considered as residents as long as they:

i. Have their principal office in Ethiopia;
ii. Have their place of effective management in Ethiopia; and/or
iii. Are registered in the trade register of the Ministry of Trade and Industry or the Trade bureaus of the regional governments as appropriate.

In line with this, the term “resident person” includes a permanent establishment of a non-resident person in Ethiopia. In addition to this, an individual who stays in Ethiopia for more than 183 days in a period of 12 calendar months, continuously or intermittently, will be considered as a resident for that entire tax period.

The proclamation has categorized income taxes into four categories. Category A is about “employment income tax”, Category B “income from rental of buildings”, Category C “business income tax”, Category D “other incomes” which include royalties, dividends, interest, games of chance, casual rental, non-residents, etc. Petroleum and mining operations income taxes (Articles 36-44) are fully incorporated in the proclamation. Category E includes incomes which are exempted from tax (Article 65).

The proclamation has included some new concepts. International taxation (Article 45-48), taxation of international air transport of business of non-residents (Article 50), taxation of windfall profits, repatriated profit, undistributed profit (Articles 60-62), and anti-tax avoidance rules (Articles 78-80) are all new to the Ethiopian income tax system. Further, the proclamation contains administrative and procedural rules (Articles 81-87).

Value Added Tax. The Value Added Tax (VAT) Proclamation No. 285/2002, which replaced the Sales and Excise Tax Proclamation No. 68/1993 (as amended), came into force as of January 1st, 2003. VAT is a consumption tax levied and paid as value added tax at a rate of 15 percent of the value of every taxable transaction by a registered person.

A taxable transaction is a supply of goods or a rendition of services in Ethiopia in the course or furtherance of a taxable activity other than an exempt supply (Article 7(3)). A taxable activity is any activity carried on continuously or regularly by a person in Ethiopia, or partly in Ethiopia; whether or not for a pecuniary profit that involves, in whole or in part, the supply of goods or services to another person for consideration (Article 6 (1) and (2)).

For the purpose of the VAT proclamation, the following are considered as taxpayers on whom VAT law is applicable:

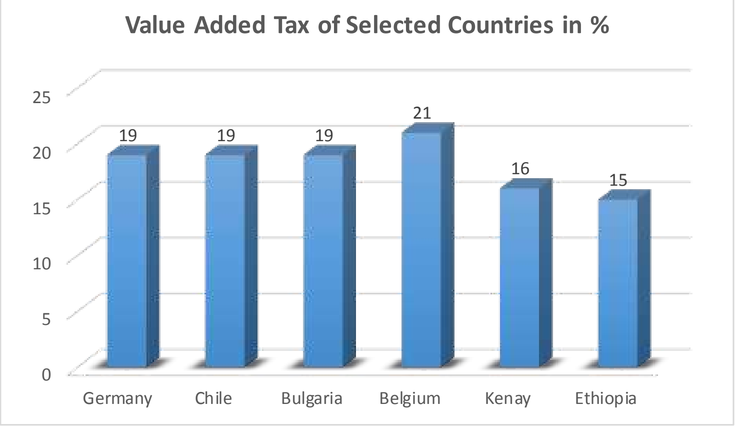
(a) A person who is registered or is required to register for VAT;
(b) A person carrying out a taxable import of goods to Ethiopia;
(c) A non-resident person who without registration for VAT renders service in Ethiopia for any person registered in Ethiopia for VAT or any resident legal person (Article 3(1), (a)-(c)-cum Article 23 (1) and (2)).

The VAT proclamation has lots of issues which require separate subsidiary legislation. The Ethiopian Revenues and Customs Authority (now Ministry of Revenues) has adopted numerous directives, circulars and letters relating to VAT. It is difficult to examine here each and every subsidiary law, but the most important issues.

i. VAT Rate

Countries that levy and collect VAT have fixed different rates. The figure below shows VAT rates of different countries.

Figure 1. Value Added Tax of Selected Countries



Source: Samuel Tadesse, 2004 EC, Value Added Tax in Ethiopia, pp. 20-21

Taxpayers registered as VAT payers have to collect the tax and forward it to the government. Registration for VAT may be mandatory or voluntary (See Article 16 and 17 of VAT Proclamation). According to Article 16 (1) of the proclamation, registration for VAT is mandatory, if:

a) At the end of any period of 12 calendar months the person made, during that period, taxable transactions the total value of which exceeded 500,000 Birr; or
b) At the beginning of any period of 12 calendar months, there are reasonable grounds to expect that the total value of taxable transactions to be made by the person during that period will exceed 500,000 Birr.

Thus, the minimum threshold for registration of VAT is 500,000 birr. However, this threshold was amended by a circular adopted by Ministry of Finance and Economic Cooperation (MoFEC).[29]

The VAT proclamation also allows taxpayers to register for VAT willingly. According to Article 17 of the proclamation, a person who carried on taxable activity and is not required to be registered for VAT may voluntarily apply to the authority for such registration, if s/he is regularly supplying or rendering at least 75% of his/her goods and services to registered persons.

ii. Exemptions

Article 8(2) of VAT proclamation has listed activities that are exempted from payment of VAT. VAT Regulation No. 79/2002, which is adopted by the Council of Ministers, contains detailed provisions that are stated in brief under Articles 19-33 of the regulation.

iii. Refund

Another basic issue in relation to VAT is refund. Refund is applicable in the following legislations:

i. Income tax proclamation;
ii. VAT Proclamation No. 285/2002 (Directives No. 27/2000, No. 24/2001, and No. 23/2001);
iii. Refund for housing project;
iv. Mining and petroleum operations refund letter reference number ታ/ክ/ቀ/5/4 የካቲት 19/2005.

iv. Sales Register Machine (SRM)

The sales register machine (SRM) was introduced into the Ethiopian sphere of taxation under Regulation Number 139/2007. The law governing sales register machine can be considered as the most complex affair in Ethiopian taxation. The regulation is enacted in order to provide for obligatory use of sales register

[29] MoFEC, A letter written on Hidar 26, 2010 E.C, Addis Ababa

machine by the taxpayers. After the regulation, the VAT proclamation was amended by Proclamation No. 609/2008 in order to accommodate SRM. The amendment proclaimed that schedule A and B taxpayers are obliged to use SRM.

The regulation mainly deals with the obligations of taxpayers with respect to the nature and conditions for using SRM, Cash Register Machine (CRM), and point-of-sales machine. Furthermore, the regulation provides for the accreditation and registration of suppliers[30] of SRM (Art 12 et seq. of the SRM regulation).

There are at least three parties which are involved in different aspects of sales register machine. Persons who have obligation to use SRM (VAT registered taxpayers), suppliers, SRM service centers and personnel, all have their own roles and obligations provided for in by the VAT proclamation (as amended by Proclamation No. 609/2008). SRM users shall adhere to the strict rules adopted by the revenue office. The registered and accredited suppliers shall import SRM and software accredited by the revenue office. In addition, the supplier is obliged to give training to users about the application of the machine. The SRM service center and its personnel have also a responsibility in the administration of the sales register machine. The proclamation lists down offences in relation to the SRM and their respective penalties.

The conditions for the use of SRM are provided for under Article 5(1) of Regulation No. 139/2007. Accordingly, the conditions include:

i. Obtaining prior permission to use SRM;
ii. Using the machine exclusively in the operation of the business covered by the permit;
iii. Do not change his/her business name or have the machine repaired, upgraded, altered, modified, updated or removed from its specified location without prior written notice from the tax authority;
iv. Submit to the tax authority a joint statement prepared with the person who performed repair, upgrade, alteration, modification or update and prior to reuse of the machine;
v. Preserve all accounting records for a period prescribed by law, within which the tax authority is authorized to make assessment and collection of taxes;

[30] Supplier is a person who supplies sales register machine to taxpayers. See Article 2(10) of Regulation No. 139/2007.

vi. Apply to the tax authority and obtain its authorization prior to the withdrawal of the Sales Register Machine from use due to wear and tear or sale;
vii. Connect e-mobile to the Sales Register Machine which can transmit to the tax authority data of sales transactions carried out using the machine.

Thus, the taxpayer shall obtain permission to use the SRM according to Article 16 of the regulation. This provision imposes an obligation on the supplier to register in the name of the user (taxpayer), the sale of SRM to the concerned tax authority. After receiving the application of the supplier, the tax authority shall grant permission that authorizes the taxpayer to use the SRM.

The use, alteration, modification, upgrade, errors and withdrawal of the use of SRM are strictly regulated by the tax authority. For this purpose, the tax authority has adopted a plethora of directives and circulars on these specific issues. The first of such statutes is Directive No. 46/2009 which provides for detailed rules governing the use of SRM. In this directive, matters relating to the nature of SRM, the daily sales and reports records, refund, the type of receipts, etc. are included.

Customs Duties: Customs is an authority or agency responsible for collecting and safeguarding customs duties in a country. Customs duties are taxes levied on imports (and, sometimes, on exports) by the customs authorities to raise state revenue, and/or to protect domestic industries from more efficient or predatory competitors abroad. Tax is also called tariff. The duty is based generally on the value of goods (called ad valorem duty) or upon the weight, dimensions, or some other criteria of the item (such as the size of the engine, in case of automobiles).

Customs duty is, therefore, a kind of indirect tax which is realized on goods of international trade. In economic sense, it is also a kind of consumption tax. Duties levied by the government in relation to imported items are referred to as import duty. In the same vein, duties realized on export consignments are called export duty. Tariff, which is actually a list of commodities along with the livable rate (amount) of customs duty, is popularly referred to as customs duty.

Import or export tariff (also called customs duty or impost) is a charge for the movement of goods through a political border. Tariffs discourage trade, and they may be used by governments to protect domestic industries. A proportion of tariff revenues is often hypothecated to pay government to maintain navy or border police. The classic ways of cheating a tariff are smuggling or declaring a false value of goods. Tax, tariff and trade rules in modern times are usually set together because of their common impact on industrial policy, investment policy, and agricultural policy. A trade bloc is a group of allied countries that agree to minimize or eliminate tariffs against trade with one another, and possibly to impose protective tariffs on imports from outside the bloc. A customs union has a common external tariff, and the participating countries share the revenues from tariffs on goods entering the customs union.

Customs duty is tax imposed on imported goods or exported goods. This type of tax is practiced by all countries to which Ethiopia cannot be an exception. Under the federal state of Ethiopia, it is clearly indicated under the constitution that the government has exclusive power to levy and collect customs duty. To this end, the federal government has come up with Customs Proclamation No. 622/2009[31] to have proper control and follow up power vested with Ethiopian Customs Authority.

The customs proclamation contains five parts. The first part is the general part which contains definitions, the scope of Ethiopian customs and the ground principles of customs. Part two is about customs procedure and control. In this part, the movement of goods and custom routes; import, export and transit of goods; prohibited and restricted goods; postal consignment and customs control are covered. Part three is about customs formalities, which are the widest part of the proclamation. This part deals with customs declaration and transit procedure, customs warehouses, calculation of customs value, customs tariff, origin of goods, payment of customs duties and taxes, securities to payment customs duties, and the like. The proclamation has also incorporated criminal clause for those acts against customs activities, and provides the respective punishments for the designated crimes. The last part of the proclamation is miscellaneous part.

Excise Tax: An excise or excise tax (sometimes called a duty of excise or a special tax) may be defined broadly as an inland tax on the production for sale, or sale, of specific goods or narrowly as a tax on a good produced for sale, or sold, within the country. Excises are distinguished from customs duties, which are taxes on importation. Excises, whether broadly defined or narrowly, are inland taxes, whereas customs duties are border taxes.

[31] This proclamation repeals The Re-Establishment and Modernization of Customs Authority Proclamation No. 60/1997, Proclamation No 125/1998, and Proclamation No. 368/2003.

An excise is indirect tax, meaning that the producer or seller who pays the tax to the government is expected to try to recover the tax by raising the price paid by the buyer (that is, to shift or pass on the tax). Excises are typically imposed in addition to another indirect tax such as a sales tax or VAT. In common terminology (but not necessarily in law), an excise is distinguished from a sales tax or VAT in three ways: (i) an excise typically applies to a narrower range of products; (ii) an excise is typically heavier, accounting for higher fractions (sometimes half or more) of the retail prices of the targeted products; and (iii) an excise is typically specific (so much per unit of measure; e.g. so many cents per gallon), whereas a sales tax or VAT is ad valorem, i.e. proportional to value (a percentage of the price in the case of a sales tax, or of value added in the case of a VAT).

The Ethiopian excise tax regime is governed by Proclamation No. 307/2002 (as amended). Accordingly, an excise tax is applicable over those lists of products scheduled to the proclamation. Some of these products include sugar, soft drinks, liquor, tobacco and tobacco products, salt, perfumes, fuel, textile and textile products, garment, etc. The schedule provides the respective rate of excisable goods (See also Excise Tax Proclamation Amendment Proclamation Number 570/2008 and 610/2008.) The former amendment is for reduction of excise tax rate for some goods listed under the schedule. The latter amendment concerns, among others, the power of the tax authority to waive any administrative penalties.

Turnover Tax: Turnover tax is one of the indirect taxes currently in use under Ethiopian law. Because of its close relation with VAT in some regions, this type of tax is interchangeable with value added tax (VAT), while the two terms may be used slightly differently in others.

The threshold for value added tax, which was applicable to taxpayers whose annual turnover is 500,000 birr or more, has now increased to 1 million birr. Turnover tax applied to taxpayers with annual turnover less than 500,000 is, therefore, specifically designed to create fairness between tax payers with annual turnover of more than 500,000 and those whose annual turnover is less than the threshold. The legislature covered only big businesses under the VAT regime, and the main reason is administrative feasibility. Turnover tax imposed on taxpayers with annual turnover less than 500,000 birr ensures fairness among those below the VAT threshold and those above. Thus, this is an equalizing tax imposed on persons not registered for VAT to fulfill their obligations and to also enhance fairness in commercial relations and to complete the coverage of the tax system.

The basic characteristics of the turnover tax are:

- The tax is known for its simplicity and the methods of assessment simpler than in other taxes;
- The law does not require complex compliance requirement as the tax is applied to small businesses;
- Turnover tax is a consumption tax imposed on supply of goods and rendition services. A consumption tax is a tax on non-investment spending;
- Turnover tax is paid by taxpayers not registered for VAT;
- Unlike value added tax, which is calculated based on the value added, the base for assessing turnover tax is the turn over. It is an indirect tax imposed not on the value added but over taxable turnover or sales of goods and services.

Stamp Duty: Stamp duty is another form of taxation imposed on services given to individuals through affixing seals. Stamp is an official mark or seal placed on a document, especially to indicate that a requirement tax has been paid. Thus, stamp duty is a tax raised by requiring stamps sold by the government to be affixed to designed documents which form one kind of revenue to the government's treasury.

Ethiopian stamp duty is regulated by Proclamation No. 110/1998. The proclamation was introduced as amendment to the earlier laws. The amendment has become necessary to effectively levy tax on documents in a manner which would contribute to the development of art, activities of financial and transfer of capital assets. It was appropriate to come up with new legislation so as to strengthen the means of raising revenue from different bases of taxes. Identifying the bases upon which tax is to be imposed is the basic point. As indicated above, stamp duty is imposed on documents. To this effect, Article 3 of the stump duty proclamation exhaustively lists instruments chargeable with stamp duty. These are taken to be instruments as defined under Article 2(5) of stamp duty proclamation.

Memorandums and articles of association, instruments subjects to the duty, are constitutional documents of any business organization, cooperative or association. They indicate the powers that such entities can engage in. For instance, in the case of a memorandum of association of a business organization, the type of activity that is commercial or non-commercial which helps to earn benefits shall be clearly stipulated.

Articles of Association that governs the internal relationships that should exist among members (common in case of companies) — whatever is the case of memorandum of association and articles of association for business organizations, cooperatives or associations — can serve as a base on which stamp duty is to be imposed.

An award is similarly subject to stamp duty. An award is defined under Article 2(1) to mean a decision rendered in writing by arbitrator(s) on a reference made otherwise than by order of court in the course of suit by parties to a compromise, conciliation or arbitral submission or other similar matters. Such a document, whatever the award, is taken as a base for taxation as long as it is made in writing.

In a similar fashion, bond under Article 2(2) is described as instrument whereby a person obliges himself to pay money to another on condition that the obligation shall be void if a specific act is performed or is not performed, as the case may be; or any instrument attested by a witness and not payable to order on bearer whereby a person mobilizes himself/herself to pay money to another. Bond, as can be inferred easily, is a document showing that the holder is the creditor of the issuer person. The document, to have valid effect, shall be tested; and this iteration is the base to impose duty.

Most of the instruments listed under Article 3 of No 110/1998 are given operational definition under Article 2 of the same proclamation. Leaders are thus advised to read exhaustively the given definition and attempt to get concepts from the different law concepts covered therein. For example, by borrowing concepts from law of property, titles upon property (Article 3(10)) can be understood to mean a certificate bearing the signature of public officials serving as prima facie evidence that the holder is an owner of the property indicated under the document.

The stamp duty proclamation amended by Proclamation No. 612/2009 focuses on dispute settlement clauses. The amendment provides that any person, who is dissatisfied with the amount of duty assessed by the Ethiopian Revenues and Customs Authority may, within 30 days of receipt of the assessment notifications appeal to the Review Team or the Appeal Commission against the assessment (Article 9). Furthermore, the amendment provides that any party who is dissatisfied with the decision of the Tax Appeal Commission has the right to bring the case to a regular court (Article 11).

3.2 Tax Administration in Ethiopia

Tax administration in the country is vested upon a revenue authority. Earlier, tax administration was imposed on Ministry of Revenues (See Proclamation No. 256/2001, Article 4(11). The Ministry of Revenues subjected two revenue organs, viz. Federal Inland Revenues Authority and Customs Authority. Though the organs were established by a separate statute, all had very similar activities in terms of resource utilization and organizational arrangement. Thus, they were merged by Proclamation No. 587/2008 to form the Ethiopian Revenues and Customs Authority. Recently, the Ethiopian Revenues and Customs Authority were re-organized into Ministry of Revenues and Customs Commission.

Several proclamations, including the following, have been issued by the government in order to improve tax administration.

Tax Administration Proclamation Number 983/2016

Before the enactment of this proclamation, the Ethiopian tax administration used to be scattered in different tax legislations. However, this proclamation consolidated all tax administration issues in a separate document. The proclamation governs tax administration aspects of income tax, VAT, TOT, excise tax, stamp duty, and other laws imposing taxes.[32] It is divided into 16 parts and 139 articles.

Tax Administration Regulation No. 407/2017

The regulation contains matters relating to administration of tax laws, registration of taxpayers, tax agents and licensing. More than two-thirds of the provisions of the regulation are reserved to the tax appeal commission, detailing the powers, decisions, and administration of the commission.

3.3 Tax Dispute Settlement

I. Review Committee

The tax authority has established two organs for the settlement of disputes. The first is a system of settlement of disputes that arise on the general services given by the authority. The second concerns a review committee which specifically settles tax matters.

[32] Proclamation Number 983/2016, Article 2(36)

a. Complaint review on services provided by the authority

This organ is established by Directive No. 129/2018. The directive recognizes the right of every customer dissatisfied with the works of the revenue office to present his/her complaint. The directive provides for the steps in lodging any compliant on services provided by the revenue office. A complaint can be presented to the immediate supervisor up to the customer service directorate. The powers and duties of each complaint handling officer are specifically listed in the directive.

b. Tax revision

Tax review committee is established by common Article 2 of income tax, VAT, excise tax, turnover tax, and stamp tax proclamations. The review committee, which is responsible for the authority, has the power to:

a. Examine and decide on all applications submitted by tax payers for compromise of penalty and interest and on the tax assessed;
b. Gather any written evidence or information relevant to the matter submitted;
c. Summon any person who has directly or indirectly dealt with the assessment to appear before it for questioning about the case under investigation; and
d. Review determinations made by the authority for accuracy, completeness, and compliance with tax legislations.

In 2013, the Ethiopian Revenues and Tax Authority adopted Directive No. 91/2013 which provides for the working procedures of the review committee. According to the directive, the main objective of the establishment of the review committee is to entertain complaints relating to tax determination. Tax review committees are established at the head office of the authority and all branches of the authority as well as all sub-cities in Addis Ababa. Each review committee will have 3-5 members, including chairperson, secretary and member(s). Members of the review committee at the head office are appointed by the director-general of the authority and by the head of tax offices at lower levels.

The tax legislation and the directive establishing the review committees provide that any taxpayer who has a complaint shall submit his/her grievance within 21 days of assessment notification.[33] This period can be extended by ten additional days.[34] After investigating the tax complaints, a review committee will present its investigation report to the director-general of the authority (at the head office), or to the head of a branch revenues office (at the branch revenue office.)

II. Tax Appeal Commission

The Tax Administration Proclamation No. 983/2016, Article 86 has established a tax appeal commission that entertains grievances which are appealed against the decision reached by the tax review committee.[35]

There are two conditions to present a grievance to the appellate commission. One of the conditions is that the taxpayer pays 50% of the tax already assessed. However, many taxpayers interviewed by the study group replied that payment of 50% of the assessed tax is improper. Moreover, they strongly stated that they do not expect good response from the appeal commission anyway. From their experiences, the appeal commission has never ruled in their favor.

The second condition is related to time. An objection shall be submitted to the appeal commission within thirty (30) days from the day the decision is given by the review committee or after the lapse of 180 days from the day the complaint is presented to the review committee.[36]

III. Federal High Court

A taxpayer aggrieved by the decision of the tax appeal commission can appeal to the Federal High Court within 30 days.[37] The time limit may, however, be extended by the high court.

Appeal to the court is conditional upon the payment of 75% of the tax in dispute.[38] The proclamation states that appeal to the Federal High Court is restricted to legal matters only.

IV. Federal Supreme Court

Any decision of the Federal High Court is appealable to the Federal Supreme Court within 30 days.[39] Yet, the time limit provided herein can be extended by the Supreme Court.

[33] Tax Administration Proclamation No. 983/2016, Article 54(1)
[34] Ibid, Article 54(7)
[35] The Tax Appeal Commission has been established by specific tax laws. The new Tax Administration Proclamation No. 983/2016 (Articles 86 – 94) has consolidated the prior laws which establish the commission. See also Tax Administration Regulation No. 407/2017, Articles 9 – 17.
[36] Ibid, Article 55(7)
[37] Ibid Article 57(1)
[38] Ibid, Article 57(3)
[39] Ibid, Article 58(1)

The tax administration proclamation says that the time limit set for appeal to the Federal High Court and the Federal Supreme Court can be extended by the respective courts. This is expected to fit the time specified under Article 323(2) of the Civil Procedure Code. The procedural law provides that appeal can be lodged within sixty days from the foregoing judgment.

Moreover, Proclamation No. 456/2005 stipulates that any decision of the Federal Supreme Court that contains basic error of law can be brought to the Cassation bench of the Federal Supreme Court and the verdict passed by the Cassation bench of the Federal Supreme Court are binding on all other lower courts.

3.4 Categories of Taxpayers

Taxpayers in Ethiopia are classified into three categories, viz. Category A, Category B and Category C, based on the turnover they generate in a single tax year, with the rationale of extending different treatments for different categories of taxpayers. Bookkeeping, declaration of income and other obligations differ from one category to the other.

Category A taxpayer: Those taxpayers whose annual turnover for a single tax year is 500,000 Birr or more, and companies incorporated under the laws of Ethiopia (irrespective of their annual turnover) are classified under this category. Category A taxpayers are required to keep books and accounts. Failure to do so shall result in the payment of an administrative penalty. Failure to keep books and accounts for one year shall result in penalty of 20% of the tax assessed. The license of the taxpayer will be suspended if s/he fails to keep same for two consecutive years.

Category B taxpayer: In this category are classified taxpayers with an annual turnover of more than 100,000 and less than 500,000 birr. Category B taxpayers are also required to keep books and accounts, though this is less complicated when compared to Category A which incorporates mainly profit and loss statements for a particular year. The same administrative penalties apply if Category B taxpayers fail to keep books and accounts.

Category C taxpayer: All small businesses with annual turnover of less than 100,000 Birr are grouped under Category C and they are not required to keep books and accounts. Their income tax liability is determined through a special procedure known as presumptive taxation.

3.5 Enterprise Classification

Enterprises are classified based on their capital and number of employees.

- Micro enterprises have less than 20,000 Birr capital and less than 10 employees.
- Small enterprises have less than half a million Birr capital and 11 to 30 employees.
- Medium enterprises have 500,001 to 7.5 million Birr capital and 31 to 100 employees.

IV. Contributions of the Business Community to Revenue at National and Addis Ababa Levels

Ethiopia's Industrial Development Strategy of 2002 points out that the "private sector is the engine of the economy." The private sector does benefit the country by creating employment, generating government revenue, boosting production and foreign currency etc. Small and Medium Enterprises (SMEs) contribute their share in this regard, and lay foundation for industrialization.

Table 3: Tax Revenue to GDP and Annual Budget Ratio of Ethiopia from 2012/13 - 2017/18

No.	Description	Fiscal Year					
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
1	Real GDP in million ETB	1,304,604	1,465,638	1,635,255.3	1,778,143.7	1,997,590.40	No Data
2	Annual budget in million ETB	150,630.5	162,457.5	194,997	271,900.8	292,373.2	334,803.6
3	Tax revenue in million ETB	99,769.4	123,179.4	165,277.3	190,519.7	210,172.5	235,229.5
4	Tax revenue to GDP ratio (%)	13.07	11.89	9.9	9.4	9.5	-
5	Tax revenue to annual budget ratio (%)	66.2	75.8	84.8	70.1	71.9	70.3
6	Tax revenue annual growth rate (%)	16.0	23.5	34.2	15.3	10.3	11.9

Source: Ministry of Finance and Economic Cooperation, 2019

As portrayed above, tax revenue has shown a modest improvement from the year 2012/13 to 2017/18 and annual growth rate was up from 2012/13 to 2014/15; but went down in the three consecutive budget years that followed. Ethiopia was able to finance 84.4% of its annual budget from tax only in 2014/15. It was on average below 76% during the rest period. Some 73.2% of the government's budget was financed from tax revenues from 2012/13 to 2017/18. This means that the country faced 26.8% budget deficit on average in the stated period. This shows that a lot of effort has to be exerted to mobilize more domestic resources (tax revenue) to narrow the budget deficit and reduce external dependency.

Taxation in Addis Ababa

The economic activity of Addis Ababa is dominated by the service sector, which contributes to about 77 percent of the city's economy, followed by the industrial sector with about 22 percent. Agriculture contributes to less than 1 percent of the city's output (IMF 2017).

The city's economy grew at annual average rate of more than 11% in real terms (Bureau of Finance and Economic Development) from 2004/05 to 2017/18, bringing a real per capital income growth of about 8 percent. Addis Ababa's per capita income is approximately three times more than the national average, and most economic and social indicators, including education and health coverage, road network, water supply, etc., are significantly better than the national average.

Despite its economic importance and contribution to the country, Addis Ababa faces various problems such as high-level of poverty, insufficient and poor-quality infrastructure, insufficient public facilities, acute shortage and deterioration of houses, poor sanitation, and unemployment. The provision of public infrastructure and services has lagged far behind the growing demand. The quality and availability of urban services and infrastructural facilities in the city are very low (Bureau of Finance and Economic Development, 2009), and the city's annual expenditure requirement exceeded the financial resource available by about 10 billion birr from 2009/10 to 2011/12. The resources available in the city are not sufficient to finance its expenditure requirements, entailing budget allocation to only be in line with the development priorities of the city.

The actual revenue collected from tax in 2017 was 27.5 billion birr. According to Addis Ababa Revenues Bureau, the target was 31.5 billion birr. Thus about 87% of the planned revenue was collected from tax. In that same year, there were 331,000 registered individual taxpayers across Addis Ababa. Out of those, 120,000 were classified as high taxpayers in the categories A and B, and the rest fell under Category C taxpayers.

In the budget year 2018/2019, the city government planned to collect 44.7 billion birr revenue from tax and non-tax sources. Of this, 22.5 billion birr was expected to be collected from direct taxes, and 11 billion birr from indirect taxes. Municipality revenues would generate 878 million birr, and other revenues such as loans and grants were expected to contribute 10.2 billion birr for the total revenue.

(i) Revenue in Addis Ababa: The city's finance envelops own tax and non-tax revenue, foreign grants, road fund, and ministries direct support to the respective sectors in the city and off-budget sources like NGOs.

Over the period of 2004/5-2008/9, the city's nominal revenue was generally increasing year after year, except in 2006/07 when the total revenue and grants declined. Tax is the major source of the city's revenue, contributing more than half of the income. Tax revenue has been growing in nominal terms.

Revenue collection in Addis Ababa has significantly grown in the last five years in nominal terms, but it is still not in line with the city's level of economic activity. Aggregate revenue outturns are also low as compared to original approved budgets and volatile both at city and sub-city levels. The weak revenue outturn has resulted in high expenditure deviation between the budget and actual outlays. Although expenditure deviation at city level is still high, the deviation has been decreasing in recent years.

Table 4: Tax revenue to GDP and annual budget ratio of Addis Ababa from 2012/ 13-2017/18

No.	Description	Fiscal Year					
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
1	Addis Ababa budget in billion ETB	16	21.8	28.3	31.8	35.4	44.7
2	Addis Ababa GDP in million ETB	66,264	78,040	90,908	94,902	98,094	99,484
3	Tax revenue in million ETB (country level)	99,769.4	123,179.4	165,277.3	190,519.7	210,172.5	235,229.5
4	Tax revenue in million ETB (Addis Ababa city level)	9,229.89	12,024.47	17193.33	21,109.16	23,245.69	27,444.02
5	Tax ratio of Addis Ababa to country Level (%)	10.8	10.25	9.6	9.1	9.0	8.6
6	Tax Revenue to GDP Ratio (%)	24.1	27.9	31.1	33.5	36.0	44.9
7	Tax Revenue Annual Growth Rate (%)	41.0	30.1	42.9	10.1	10.3	18.1

Source: Addis Ababa City Bureau of Finance and Economic Development (BoFED), 2019

(ii) Branch Tax Offices. In 2018, the bureau had four divisions — micro, small, middle, and large taxpayer offices — that serve 340,520 taxpayers. There are 116 woreda offices in the city for taxpayers classified under micro division. Taxpayers with 500,000 Birr and below annual income are served at the micro division, and small taxpayers with annual revenue of Birr 500,000 to five million at woreda/ district level. The authority has four middle taxpayer offices for taxpayers with an annual turnover of Birr 5,000,000 to 40 million Birr.

The Addis Ababa Revenues Bureau has a taxpayer office especially designated for taxpayers that earn above 40 million Birr annually. The office has proximity to the center and there are services such as parking and reliable internet connection. Some 800 taxpayers are served at the branch.

V. Findings and Discussion

Records of ERCA show that only 49% businesses in Addis Ababa paid tax, 32% announced lose, 17% nil and they had withholdings, and 1% needed refund in 2017. From VAT registered customers, only 31% pay tax, 38% withdrew from business and 30% announced they had no transaction. These show that the tax system is not healthy.

This study, which was conducted using various instruments, has resulted in the following findings and discussions. Reflections of respondents and key informants are also summarized below.

5.1 Taxation Laws, Policies, Directives and Institutional Set-ups

5.1.1 Knowledge, skill and attitude (KSA) of taxpayers and experts about Ethiopian tax legislations

Both taxpayers and tax official respondents stated at the focus group discussions that they knew the tax laws of the country. However, the taxpayers knew only some of the Ethiopian tax laws, not all. For instance, many of the tax payers had knowledge about the VAT proclamation, income tax proclamation, TOT, and tax invoices.

The survey shows that knowledge of the respondents about Ethiopian tax laws is generally good. Some 5.3% of the businesses said they didn’t know the tax laws, while 68% of the sampled taxpayers said they knew some of the laws. Some

26.7% of the respondents knew most of the tax laws.

The taxpayers believed that not knowing about tax laws has a negative impact on their businesses and leads to paying unjust taxes and penalties. They stressed that the first thing Ministry of Revenues should try to do is create awareness about tax laws, and most importantly the traders shall endeavour to understand and update themselves with tax laws. The taxpayers criticized the inclination of the Ministry of Revenues to penalize rather than take correctional measures.

One of the respondents said: *"Since I wanted to close my business, I asked an official how I proceed. She advised me to submit a letter that indicates the closure of my business. I submitted the letter and stopped filing business report. When I finally went to the office to check the progress, they said I needed to report to the* office until I was told to stop. Because of this, they imposed 10,000 birr penalty on me. Had I known the law, I wouldn't have faced such a problem. Ignorance of the law is no excuse."

A key informant also stated: *"We can't say that all the taxpayers are well aware about each and every tax law. But some have good knowledge about tax laws."*

Another key informant added: *"We prepare forums based on their business type and invite them to come once in a week. But most of them do not come, they send representatives. So how can they become aware of the tax laws? We are not like other countries, most of the taxpayers pay tax because paying tax is an obligation, or else they get punished."*

5.1.2 Accounting records

Lack of well-organized accounting records are also source of dissatisfaction among most of the businesses. The study showed that 70.5 % of the respondents did not have proper accounting records, and only 29.5% had proper accounting records. Hence most of the respondents did not know how to keep proper accounting records.

Key informants noted that some taxpayers do not even keep accounting records at all.

5.1.3 Lack of clarity about income (withholding) tax

The absence of clear and systematic employee income tax affects the tax payments of small and medium enterprises. Employee income tax, especially tax imposed on allowance, temporary workers or any other remuneration, has no clear rules and regulations, but different and ambiguous circulars. From among the respondents, 56% knew clearly about withholding tax, whereas the remaining 44% were not clear about the tax. Therefore, Ministry of Revenues needs to clarify things to taxpayers. Intensive training is important to clarify payments in this regard.

5.1.4 VAT registration, competition and reporting

The respondents believed that registration for VAT makes them less competitive against competitors who do not pay additional 15% VAT because they are not registered for VAT. Customers prefer to buy from cheaper suppliers, affecting seriously fair business competition.

Key informants added: *"Indeed, if a person with transaction which qualifies him for VAT fails to register for VAT, s/he will gain advantage over other taxpayers who are registered for VAT and engaged in same business. The price of the product will be lower in places where traders are not registered for VAT because the price does not include 15% VAT. To solve this problem, we organized committees to go around and make sure that a person with over 100,000 birr annual transaction is registered for VAT. Of course, it's our duty to register those taxpayers so as to ensure fair business competition."*

A typical respondent on the other hand said: *"I am a VAT registered businessperson. The major problem we have been facing is illegal invoice. Some wholesalers do not even want to provide invoice during transaction. There is also a problem when a transaction is made between VAT registered and TOT registered traders. The other problem is with excise tax. Some of the products that we import are taxed 100%. This increases the price of that product significantly and customers refuse to buy the product. Preparing a report and effecting payments every month is also very inconvenient. There is again a problem in accepting our financial statements. ERCA rejects receipts and this forces us to collect receipts that increase our income. This in turn affects the tax imposed on us."*

5.1.5 Reporting system

A reporting system is important to the tax authority to monitor taxpayers easily. Taxpayers asked to reflect on the importance and mechanisms of the reporting system, which is monthly, quarterly (every three months) for TOT, and monthly for income tax, said: “We can’t say that all traders are honest. So, the system is very important. However, the mode of reporting is not convenient.”

A respondent said: *“I don’t want to go every month to the authority in person and report. It’s time and money consuming. This should be done through a computerized system. They should develop a system that allows us to report online. That will save time and money as well as the inconvenience of reporting in person.”*

5.1.6 Illegal trade and other challenges

Corruption at all levels of the tax administration, especially among auditors of the authority, is a serious problem. Prevalence of contraband, illegal cash register machine, illegal receipt, lack of transaction receipts, and modernized transactions such as cashless transaction as well as inability of the tax collecting authority to differentiate between tax evaders and loyal taxpayers are also challenges to tax administration.

5.2 Capacity of City Tax Officers

5.2.1 Refunding process of Addis Ababa Revenues Bureau

Taxpayers often get their income tax refunded, if the tax they owe is less than the sum of the total amount of the withholding taxes and estimated taxes that they paid, plus the refundable tax credits that they claim. Tax refunds are often paid after the end of the tax year.

Nevertheless, respondents said that *“the process is sometimes long, though the authorities pay back after seeing the necessary documents. It will be very nice if they put in place a system that enhances the refunding process.”*

5.2.2 Dispute resolution

Taxpayers stated that tax disputes are resolved very late at the Addis Ababa Revenues Bureau. Besides, some of the decisions made are not convincing. The process is very long and slow.

Respondents believe that “some employees of the bureau check every tax document thoroughly and impose fair and appropriate tax. But others do not go through each and every tax document, and impose unfair tax which is not balanced.

5.2.3 Revising tax laws

Most of the tax laws are not clear and easy to implement. Key informants pointed out new cases that are arising, but not covered by the laws. So tax laws should be revised from time to time and according to the economic development and business transaction in the country.

For example, the informants explained that though employee income tax, especially tax imposed on allowance, payment of casual workers or on any other remuneration, are listed under the proclamation, those working in remote areas or outside the country do not declare these remunerations on time. But they are forced to declare and pay with penalty.

In addition, the TOT and Excise proclamations need amendments. In general, the tax laws should be prepared in a manner that covers the present and future possible cases.

VI. Conclusions and Recommendations

6.1 Conclusions

Ethiopia has a low tax ratio compared to even other low-income countries. Administrative bottlenecks and weak tax compliance have been the main obstacles to revenue administration. Given the current low collection rate, achieving the target of 17.2 percent of GDP by 2019/20 will be challenging (IMF Report). Although the country has been registering robust and strong economic growth, the tax collection as a ratio of GDP, which is the standard measure of tax performance, is too small when compared with the average African tax/GDP ratio of 20%. In sub-Saharan Africa, it is more than 16%, in middle income countries 25%, and in developed countries 40%. Hence Ethiopia, with the fourth huge economy in Africa, has to increase its tax collection efficiency to minimize budget deficit.

However, the country faces many challenges with respect to tax collection, dissatisfaction of taxpayers, cash transactions with no trails which further diminish tax collection, huge black economy, and rampant tax evasion. Worse, there is no political will to collect revenues, and that results in a narrow tax base on account of a number of politically motivated tax exemptions and deductions.

Citizens and taxpayers also suffer in many ways. There is less development because of scarcity of funds and corruption at higher level. Additionally, with the predominance of regressive indirect taxes, the poorer section of society has to sacrifice bigger share of income in taxes when compared with richer persons.

Furthermore, taxpayers suffer on account of absence of a fair dispute resolution system. In addition, the survey depicts lack of tax knowledge by taxpayers and the prevalence of unfair competition which has led to less voluntary compliance. To deal with all such critical problems both at national and city levels, it is reasonable to conclude that the following suggestions could help resolve the problems all the taxpayers, small, medium or large enterprises, face:

- Maintaining fairness and equity;
- Building capacity of the tax authority in both technical and human capital;
- Conducting extensive awareness creation programs and practices;
- Putting in place timely-based appealing schemes;
- Ensuring tax enforcement legally and fairly.

6.2 Recommendations

In this section the study recommends remedial measures that ensure fair, efficient and transparent tax administration in the Addis Ababa City Administration and evidence-based advocacy of Addis Ababa Chamber of Commerce and Sectoral Associations.

1. Ensuring responsibilities
Recommendations for taxpayers

- ➢ Taxpayers should be aware of the socio-economic advantages of tax revenue and need to comply with rules and regulations and refrain from tax evasion.
- ➢ Participate in consultative forums and meetings.

2. Improving tax administration and efficiency
Recommendations for Ministry of Revenues and Addis Ababa city tax collecting offices

- ➢ Sound use of information technology — automating tax authority data storage, process, administration system and capacity.
- ➢ Ensuring adequate management information system so that taxpayers will receive clear, concise and up-to-date information on describing what is taxable, calculating tax liabilities, places for paying taxes, etc.

3. Improving tax assessment and ensuring fairness
Recommendations for Ministry of Revenues and Addis Ababa city tax collecting offices

- Building adequate and skilled human resources.
- Introducing transparent criteria for tax assessment and its implementation.

4. Improving procedures, tax systems and efficiency
Recommendations for Ministry of Revenues and Addis Ababa city tax collecting offices

- Re-examine the tax system, rules and regulations and make sure that it is simple, clear and transparent.
- Introduce single window service to improve the doing business environment, in addition to e-Gov such as online payment for tax.
- Establishing effective internal and external control mechanisms by preparing guidelines, directives and standard formats to be strictly followed by employees.
- Strengthen the existing tax policy, clear laws and regulations, ensure taxpayers protection and close any loophole that discourage taxpayers from being compliant to tax laws.
- Prepare standard audit procedure to have similar audit process.
- Modernize the dispute resolution system and appropriate structure for fair and speedy settlement of disputes.

5. Developing capacity building programs and creating awareness
Recommendations for AACCSA

- Addis Ababa Chamber of Commerce and Sectoral Associations should help revenue collecting organizations by creating strong awareness on tax administration system and studies that address the tax administration problems.
- Promoting ethical business practices.

6. Improving the Audit Process
Recommendations for Ministry of Revenues and Addis Ababa city tax collecting offices

- Both organs should prepare standard audit procedures that make the audit process similar.

- Forms at city level are different from sub-city to sub-city. The tax offices should, therefore, prepare similar forms.
- Those businesses with accounting records should not pay on the basis of daily revenue estimation.
- The authority has to enforce effective tax collection mechanisms such as monitoring tax evasion, following transactions and controlling corruption by following the money.

7. Changing Attitudes

Recommendations for Ministry of Revenues, Addis Ababa city tax collecting offices and AACCSA

- As the mentality and attitude of tax collectors towards the business community should be positive.
- The corrupt should be exposed by the tax authorities.
- The revenue offices should establish appropriate procedures and systems of tax collection and assessment and assign capable professionals.
- Ministry of Revenue needs to prepare a five-year tax transformation plan by involving all stakeholders.
- Organizing consultative meetings is important to improve the service quality the tax authorities provide.

8. Forming independent Judiciary, Revising Policy

- The government should establish an independent judiciary system. It is important that individual judges and the judiciary as a whole are impartial and independent of all external pressures and of one another so that those who appear before them and the wider public can have confidence that their cases will be decided fairly and in accordance with the law.
- Policy makers should revise the tax policy and related laws from time to time and policy experts are engaged in tax conversation that may be more important in making the tax system simpler and smarter.

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Enhancing the Role of ICT for Business Efficiency and Competitiveness: with Special Emphasis on Constraints and Policy Recommendations*

Mesay Hailemariam and Elias Ali

ABSTRACT

The ICT sector has a potential to help Ethiopia prosper and attain goals contained in GTP-II. The sector involves technologies, products and services offering a colossal potential to create jobs. Currently, it has become important to use ICT to effectively compete with other (both local and foreign) companies. Business advocates like AACCSA put an extensive effort in realizing multiple benefits of using ICT in business. Indeed, the Ethiopian Government is putting efforts to expand the access of ICT through the national ICT policy. Nevertheless, Ethiopia stands behind many of the developing economies when it comes to using ICT. In line with this, it is worthy to take a look at the role of ICT in enhancing the business efficiency and competitiveness to provide policy makers, business advocates and analysts an insight on the current status of ICT usage by the business community and interventions needed for the future.

This study entails a survey result conducted by taking samples from various sub-sectors of businesses located in Addis Ababa. The findings of the study reveals significant challenges of ICT usage for business efficiency and competitiveness including lack of up-to-date research based information; underdeveloped and underutilized infrastructure for shares services like fiber optics, data centers; inadequate efforts to establish intellectual property rights in the ICT sector which can significantly enhance R&D. Furthermore, laws, policies, regulations and strategies must stand firm to support the ICT sector. There is also a need to enhance the capacity of the regulator in defining quality benchmarks, and auditing quality of service reports.

Incentives, promotions together with ICT infrastructure and sufficient connectivity assist the development of ICT. Start-ups in the ICT business should be supported in a range of mechanisms; Promote achievements of technology developers through various mechanisms like Business-Technology Alignment Award programs, etc.

* Mesay Hailemariam holds MSc in Information Science from Addis Ababa University.
Elias Ali holds MA in Economics specialized in Applied Trade Policy Analysis from Addis Ababa University.

The other important factor in the development of ICT is skill, training and capacity building. Skills, training, must be strengthened as the same as Capacity Building. ICT related skill gaps within the business community should be strategically addressed. Furthermore, Nation-wide ICT knowledge and skill Assessment Certification has to be established.

Creating conducive environment for mobile applications also carries the same weight. Services in relation to mobile applications must be promoted as the usage of mobile applications to access the web is popular. Moreover, Mobile Money Transfer, as “good” practice of effective business-ICT linkage in a number of countries, should be advanced.

I. INTRODUCTION

1.1. General Background

Technological innovation and increased use of ICT shaped how business is conducted. Business success is becoming more dependent on timely decision, which is based on adequate data. The complexity of business nature, driven by dynamic ICT changes, is forcing investors to technological interventions. Nonetheless, it is very important to analyze how ICT can help businesses reach their goals. One of the most used approaches for analyzing this kind of correlation is Resource Based View (RBV). RBV provides a model to analyze resources with regards to the potential for firm’s productivity and competitiveness. The framework claims that the major source of competitive advantage of firms is what they have as a resource and how capable are they to control it (Barney, 1991).

Resource can be of value if it contributes to cost reduction or profit maximization. Here defining and analyzing capacity requires understanding value and competitive advantage of a firm. Value provides firm with competitive advantage over its rivals. Thus, ICT should be a value to a firm if it is needed to be a source of competitiveness.

It is equally important to have insight on how this value (ICT) can be utilized in order to improve the overall efficiency. Recent developments in international trade reveal that ICT is the main enabling factor. Massive investments on ICT provide companies with opportunities to use cheaper voice and data communications, automation of tasks and flexible access to customer service. These in turn, paved ways for re-allocation of resources to better productivity, quality of service delivery, higher business interactions and rapid transfer of business knowledge, which are all dividends of business efficiency and competitiveness (UNCTAD, 2015).

At this juncture, it is useful to take a look at how developing nations cope up with ICT tools and services in light of excelling their business competitiveness. Researches show that ICT penetration in business sector in developing countries is still low. Even if using mobile telephone grew fast and internet services are better accessible in Africa, few firms in the continent have access to a more enhanced ICT services.

AACCSA promotes the existence of effective policy measures that augment the role of ICT infrastructure for the business community. This study is focused on identifying basic bottlenecks of ICT penetration in the business sector and how these should be alleviated. Major stakeholders of the ICT sector, specifically government and the business communities are parties which should contribute to effective implementation of the recommendations forwarded by this study.

1.2. Objective of the Study

The objective of the study is to produce ICT support strategy documents which identify modern ICT systems promoting efficiency and competitiveness. More specifically, the objective of the study is to:

1. Identify the major legal, business and capacity challenges undermining the role of ICT for promoting businesses in Ethiopia;
2. Identify and prioritize ICT related services and actions which support the transformation of the Ethiopian businesses for realizing effective and efficient services;
3. Produce pertinent policy issues which streamline the ICT sector in such a way that it plays a pivotal role for enhancing trade and investment in Addis Ababa as well as Ethiopia;
4. Produce ICT support strategy document that can guide future interventions towards supporting the business community to benefit from the ICT sector; and
5. To identify priority advocacy issues related with the role of ICT industry in promoting business for AACCSA to embark on.

1.3. Methodology

In order to effectively produce the study, the study team follows a standardized methodological approach which is described below:

1.3.1. Data Source and Data Collection Methods

- **Desk Review**

The study team has undertaken thorough document review as a major tool for data collection and analysis. The documents that are reviewed during the study can be classified as:

- Policy, Strategy and Regulatory that focuses on the ICT and business sector developments. These include but not limited to:
  - National ICT Policy and Strategy
  - Ethiopian Industrial Development strategic plan (2013-2025)
  - National Science, Technology and Innovation Policy
  - ETHIOPIA: Trade and Transformation
  - Investment and Innovation Policy Review, etc
- Operational Reports and Statistics – the 2nd Growth and Transformation Plan (GTP 2) and Mid-term Performance reports are reviewed in depth. Besides, other business sector plans, reports and evaluation papers are included here. Statistical Outputs are also one of the focus areas of the desk review.
- Research Outputs – there are numerous theoretical and empirical researches undertaken by AACCSA and other local and international institutions that are reviewed during the study; Others

- **Key Informant Interview** [40]

Interviews are used to enrich the information gathered through other data gathering instruments. Most of the interviews are conducted in face-to-face mode with key informants.

Interview Guide (Checklist) is developed by focusing on major thematic areas that include:

- Current performance of ICT utilization in business sectors and factors behind such performance;
- Major enablers (Strengths and Opportunities) of ICT penetration in business sectors in the country;
- Major pains (Constraints and Threats) of ICT penetration in business sectors in the country;
- Major stakeholders in the ICT and business sectors of the country that can influence the correlation between ICT and business competitiveness; and

[40] Core Technology Components Guideline is annexed as Annex – 001 Interview Questionnaire are annexed as Annex – 002

- Possible recommendations for effective utilization of ICT for business efficiency and competitiveness.

- **Best Practices Assessment**

Benchmarking best practices is mandatory for this study since it helps to identify policy recommendations for employing ICT.

The considerable growth in mobile and internet penetration is influencing the life of citizens living in sub-Saharan African nations. Similar to States in Sub-Saharan Africa, however, Ethiopia's mobile and internet penetration is low. Hence, the study team assessed best practices in selected countries that have significant performance in correlating business efficiency with ICT.

1.3.2. Data Analysis

The study team has conducted analysis of data which includes inspecting, cleaning, transforming and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. The analysis of data included the process of triangulation which is often used to address the validity of the data. The triangulation method uses multiple forms of data collection, such as focus groups, observation and in-depth interviews to investigate the evaluation objectives.

1.3.3. Sampling Design and Size

To improve the reliability and validity of the findings both quantitative and qualitative methods are employed to collect qualitative and quantitative data.
The sampling design for the survey is a multi-stage random cluster sampling with the first stage being government and private sectors while the other stages being list of respondent companies and institutions. The total sample size is 100 respondents, out of which 90, 5 and 5 are private business entities, government organizations and Sectoral associations, respectively. The sampling distribution is structured as presented in the following table.

Table 1: Sample Structure of the Survey

Private Businesses – 90		
Food Processing Industries – 5	*Bottled Water – 5*	*Hotel Services – 5*
Leather Industries – 5	*Car and Related Industries - 5*	*Tour and Travel Services - 5*
Textile – 5	*Carton and Paper Packaging - 5*	*Transport and Logistics - 5*
Glass and Glass Products – 5	*Paper and Paper Products - 5*	*Education Centers - 5*
Electronics – 5	*Plastic Industries – 5*	*Health Services – 5*
Alcohol, Beer and Liquors – 5	*Printing Industries – 5*	*Construction- 5*
Government Organizations – 5		
Sectoral Associations – 5		

II. ICT SECTOR REVIEW

2.1. Socio Economic Status of Ethiopia

Ethiopia is the second most populated country in Africa, with estimated total population of 107,534,882 as of the year 2018 and 4.5 percent of fertility rate (World Population Review, 2019). The country's total land area coverage is 1.14 KM2 out of which 45% is assumed arable. The working age population was 53.6 Million in 2016/17 whereas, age dependency ratio for the 2016/17 fiscal year was 75.0 (Annual Report, NBE, 2018).

During the period of 2013/14 to 2017/18, the annual economic growth of the country showed an average of 9.3%. During the fiscal year of 2017/18 the growth was 7.7 percent which was slower than the previous year growth rate due to a decline in agriculture and industry. (Annual Report, NBE, 2018).

The total cultivated land of crop production reached 12.7 million of hectares in the fiscal year of 2017/18, out of which 80.7 percent, 12.6 percent and 6.7 percent were covered with cereals, pulses and oil seeds respectively (Annual Report, NBE, 2018). The share of the industry sector from the total GDP of the country reached 20.6 percent during the fiscal year of 2017/18.

Manufacturing sub-sector comprises 25.3% of industrial outputs, while construction is still a dominant sub-sector in industry with a 71.4% of its industrial output share due to massive construction and expansion projects of road, railways, dams and residential houses. The service sector, on the other hand dominates the economy by its GDP share of 39.2 percent in thefiscal year of 2017/18 (Annual Report, NBE, 2018).

The average general inflation of the country has reached 13.1 percent in the 2017/18 fiscal year while that of a year before (i.e., 2016/17) was 7.2. Regarding developments in interest rates, the National Bank of Ethiopia (NBE) had taken a change on policy measures by reducing the minimum and maximum deposit interest rates raised to 7.0 and 9.0 percent in 2017/18 fiscal year from 5.0 and 5.75 percent registered last year same period, respectively (Annual Report, NBE, 2018).

As one can easily remind that the financial sector of the country is not liberalized yet, the number of banks in the country still remained 18, of which 16 are private and 2 are state-owned. The total number of branches reached 4757 in 2017/18, out of which 35.3 percent located in Addis Ababa. The total capital of the banking industry reached Birr 85.8 billion by the end of June 2018 (Annual Report, NBE, 2018).

In the insurance industry, the number of insurance companies reached 17 whereas about 53.6 percent of insurance branches were located at Addis Ababa and 84 percent of the total branches were owned privately. The total capital of insurance companies reached 5.5 Billion birr of which 72.1 percent of the share was owned by private (Annual Report, NBE, 2018).

The performance on total outstanding credit of the banking system reached Birr 449 billion at the end of June 2018 which includes credit to central government. Excluding central government, credit to industry accounted for 39.3 percent followed by international trade (19.8 percent), domestic trade (11.4 percent), housing and construction (11percent), others sectors (5.8 percent) and agriculture (4.9 percent). The share of private sector in outstanding credit was Birr 284.5 billion in the year 2017.18 (Annual Report, NBE, 2018).

The money exchange rate market showed a depreciation of 5.9 percent due to the devaluation measure taken in October 2017. The end period mid-market rates of birr against US dollar was 21.9, 23.2 and 27.3 for the fiscal year of 2015/16, 2016/17 and 2017/18, respectively.The annual average headline inflation reached 13.1 percent in 2017/18 which was heavily attributed to a 9.1 percentage point rise in food & non-alcoholic beverages inflation (Annual Report, NBE, 2018).

2.2. The Business Environment of Ethiopia

The World Bank ranked Ethiopia 159th out of 190 countries for “ease of doing business” in its Doing Business 2019 report (World Bank, 2019). According to this report, the rank for Rwanda, Kenya and Egypt for the year 2019 are 29, 61 and 120 respectively.

2.3. Status of Ethiopia's ICT Sector in Global Measures

The performance of ICT can be determined by a number of factors including fixed-line telephone service, mobile telephone service, public telephones, computers, and Internet service. There are various world- wide analysis and reports that rank country's performance in the development of ICT sector. The most pertinent are presented as follows:

2.3.1. ICT Adaption Ranking in Global Competitiveness Index

The Global Competitiveness Index of 2018 presented country's status in competitiveness with in relation to 12 pillars under 4 categories such as enabling environment, markets, human capital and innovation ecosystem. Ethiopia ranked 122th out of 140 nations in the overall performance of competitiveness index. A specific look at the ICT adaption under the enabling environment reveals that Ethiopia ranked 138th out of 140 countries. The following table presents the country's rank in seven detailed indicators of technological readiness for the year 2018.

Table 2: Ranking of ICT Adaption – Ethiopia and selected African Countries

Indicators of ICT Adaption	Unit	Ranking					
		Ethiopia	Kenya	Rwanda	Ghana	South Africa	Tanzania
Mobile-cellular telephone subscriptions /	per 100 population	130	113	127	44	9	128
Mobile-broadband subscriptions	per 100 population	138	108	109	46	66	137
Fixed-broadband Internet subscriptions	per 100 population	115	114	127	125	99	97
Fibre Internet subscriptions	per 100 population	106	91	108	n/a	83	114
Internet users	Percent of population	127	125	119	96	78	129
Overall ICT Adaption		**138**	**113**	**120**	**88**	**85**	**135**

2.3.2. ICT Development Index

The ICT Development Index is one of the indices that measures ICT readiness using three sub-indices (detailed below): infrastructure and access, use, and skills (ITU, 2017).

- The infrastructure and access sub-index captures ICT readiness and includes five indicators (fixed telephone, mobile telephone, international internet bandwidth, households with computers, and households with internet).
- The use sub-index captures ICT intensity and includes three ICT indicators (internet users, fixed [wired] broadband, and mobile broadband).

- The skills sub-index captures ICT capability and includes three proxy indicators (adult literacy, gross secondary enrolment, and gross tertiary enrolment). This sub-index is given less weight than the other two sub-indices in the computation of the ICT Development Index.

Ethiopia ranked very low, at 170 out of 176 countries, on the 2017 IDI. Ethiopia's standing was well below Rwanda, Mozambique, Tanzania, and Zambia, countries that also scored low in the ICT Development Index.

2.3.3. Networked Readiness Index (NRI)

The Global Information Technology Report 2016 features the latest iteration of the Networked Readiness Index (NRI), which represents a key tool in assessing 139 countries' preparedness to reap the benefits of emerging technologies and capitalize on the opportunities presented by the digital transformation and beyond. More particularly, the Report assesses the factors, policies, and institutions that enable a country to fully leverage information and communication technologies (ICTs) for increased prosperity and crystallizes them into a global ranking of networked readiness at the country level in the form of the NRI.

Countries are assessed over four categories of indicators: (1) the overall environment for technology use and creation (political, regulatory, business, and innovation); (2) networked readiness in terms of ICT infrastructure, affordability, and skills; (3) technology adoption/usage by the three groups of stakeholders (government, the private sector, and private individuals); and (4) the economic and social impact of the new technologies.

2.3.4. Inclusive Internet Index (III)

TheInclusive Internet index¬ of 2018 conducted by The Economist Intelligence Unit ranked 100 countries using four basic categories:

- Availability – Usage, Quality, Infrastructure, Electricity
- Affordability – Price, Competitive Environment
- Relevance – Local content, Relevant content
- Readiness – Literacy, Trust and Safety, Policy

Ethiopia stood last from the selected African countries in availability, affordability and relevance categories.

2.4. The Current Performance of ICT in Ethiopia

The government of Ethiopia is attempting to use IT as a backbone, in education, health and agriculture sectors in particular, and to realize the Growth and

Transformation Plan II in general. Hence, Ethio-Telecom is re-structured on November 2010 E.C. This initiates the necessity of transforming the telecom infrastructure and services to high standard, considering them as a pillar to ensure the ambitious plan.

2.4.1. ICT Sector Policy Framework

The national ICT policy of the country was approved in 2009 and revised subsequently. The scope of ICT policy covers knowledge and information as a tool for development, and ICT as a sector or industry. The policy has the vision of *"Every aspect of Ethiopian life is ICT assisted"; mission "To develop, deploy and use information and communication technology to improve the livelihood of every Ethiopian, and optimize its contribution to the development of the country"; goal To vigorously promote the ICT sector and enhance its contribution in political, social and economic transformation to make the country beneficial from the rapid development and progress".*

As part of implementation strategies of the policy, Ethiopia's first information technology park was established in July 2015, with a view of building ITvillage based on close linkage between research and business in IT..The Park has several functional zones like business, assembly and warehouse, commercial, administrative and Knowledge Park. The primary focus of the park is to attract IT manufacturing, development of the IT services industry and (BPO).

2.4.2. ICT Legal and Regulatory Framework

Creating fair and impartial legal and regulatory environment is key strategic decision for countries to harness the full possibilities presented by ICT.

In 2010, Ethiopia established the Ministry of Communications and Information Technology as the primary authority in the sector. Communications and IT Standardization and Regulation Directorate, a new directorate in the Ministry, was "created to handle all regulatory issues across the entire ICT sector". It is responsible for developing standards, setting base fees for telecommunications, IT and postal services and monitoring the implementation in the IT, telecom and postal sectors.

The regulatory entity is significantly challenged by legitimacy in monitoring the behavior of monopoly operator and its ability to deal with regulatory challenges, such as licensing, frequency assignment and monitoring, setting and enforcing tariffs, dispute resolution, maintaining quality of service and promoting universal access. It is unable to retain skilled employees due partly to absence of such skills and low public sector wages.

2.4.3. Relationship between ICT and Other Sectors in Ethiopia

The Growth and Transformation Plan (II) was prepared with the aim to achieve Ethiopia's long-term vision in sustaining the rapid economic growth. (National Planning Commission, 2016). As one of the priority areas, the strategic significance of ICT has been recognized in the plan: building an ICT-driven economy that could fully participate in Internet-based and interconnected global economy.

2.4.4. Telecom Infrastructure Expansion

The Government of Ethiopia is immersed in big scale investment in telecom infrastructure to meet the current and future demand of telecom services.[41]

- A total of 3.1 Billion USD investment in Telecom to enhance the telecom infrastructure until 2016; This massive Telecom Expansion Project which is being carried out throughout the nation has been successfully completed resulting in the current capacity to handle the ever increasing number of customers.
- From 2017 onwards, a demand based telecom expansion is to be realized, to have 110 million wireless capacity of which 25m is 3G, 2.5m 4G and 10m is fixed line;

There is also a completed rollout of more than 17,000 Km of fiber optics backbone across most of the country. The national fiber optic backbone is connecting all major and smaller towns. The current international bandwidth capacity stands at 27.3 Gbps.

[41] Investment in Broadband Infrastructure in Ethiopia; Mesfin Belachew /PhD/, MCIT 2017.

2.4.5. Enhancing Telecom Service Provision

The following table presents th¬e current performance of telecom services provision of the country.

Table 3: Status of Telecom Service Provision

Key Items	Value
1. Penetration	
Total number of fixed line subscribers	1.14 million
Number of Mobile voice Subscribers (in Mil)	39.54
Number of Data and internet users (in Mil)	19.49
Broadband Users (in Mil)	14.5
Narrowband Users (in Mil)	4.3
Telecom density (in %)	43
2. Service Quality	
Mobile network availability rate (in %)	91.33
Call drop rate registered (in %)	0.57
Internet network availability rate (in %)	97.12
3. Customer Service	
994 Efficiency (in %)	72.5
Provisioning within 3 Days (in %)	48
Maintenance within 3 Days	87

Source: Ethio-telecom Web-site: http://www.ethiotelecom.et

2.4.6. E-Government Initiatives

The e-government strategy was approved in 2011 comprising infrastructure, standard/ regulatory frameworks, human capital development and applications. The current status of e-government program implementation includes (Sisay, 2018): more than 160 transactional electronic services are online for 34 institutions; more than 42 informational portals are developed; one national portal (www.ethiopia.gov.et) in 4 languages, and more than 42 institutions portal enabled; More than 15,000 Kebeles are getting access to telecom (voice/data) in 5 KM radius; Government SMS (8181) service is operational for G2C services; 976 Woredas and 5000+ government institutions are connected to woreda Net; 1505 High School and Preparatory Schools are connected with SchoolNet; 36 public Universities are connected with Ethiopian Educational Research Network (EthR Net).

2.4.7. Employment Contribution of ICT Related Foreign Direct Investments in Ethiopia

According to a report conducted by the World Bank Group in 2016, FDI in ICT sector stands at the bottom. The employment contribution made by foreign direct investments in the ICT sector in the country is minimal compared to other sub-sectors.

2.4.7. Telecom Revenue as Compared to Total GDP in Ethiopia

As the following figure presents, the state-owned telecom company has annual revenue that grew over time from roundabout Birr 15,000,000.00 to close to 40,000,000.00 Birr.

2.4.8. ICT Park – Opportunity to Enhance the Capacity of Local ICT Companies

As indicated in the Strategic Medium-Term Development Program document (2005) of the ICT sector, private sector has been given attention as one of the critical source of capacity for poverty alleviation.
Along with its facilities for foreign IT firms, ICT Park was established to be a Hub for local and foreign firms. The Park is located few Kilo meters away from the center of Addis Ababa making it an ideal place for new development and lies on an area of 200 hectare. Promoting growth of IT sector, development IT supported local businesses and provision of employment opportunities for Ethiopians are the main reasons behind establishment of the IT park.

III. ROLE OF ICT IN PROMOTING BUSINESS EFFICIENCY AND COMPETITIVENESS

3.1. Defining ICT in the Context of Business Organizations

Resources and capabilities are considered as two distinctive and tightly interrelated infrastructure components of a company. Weill and Vitale (2002) defined IT infrastructure with four basic resources: IT Components (computers, printers, database software packages, operating systems, and scanners), Human IT Infrastructure (the human experience, skills and standards used to integrate the IT components into services that business people can understand and use), Shared IT Services (a set of services that users can understand, use and share, to conduct their business) and Shared and Standard Applications (stable applications such as human resource management, budgeting and accounting etc.).

3.2. Value Indicators of ICT Impact on Business Performance

Information technologies can provide powerful strategic and tactical tools for organizations, which, if properly applied and used, could bring great advantages in promoting and strengthening their competitiveness (Porter, 2001).

IT can be used as a means of facilitating communication and the exchange of information and/or facilitating knowledge sharing between various departments and functions in an organization; can act as enhancer of collaboration and a networking tool amongst employees, customers and partners.(Scott, 2001).

A number of resource outputs considered basic business process performance such as productivity, profit, cost reduction, etc. (Mithas et al., 2011 and 2012). Alternatively, the firm performance is sometimes defined by its efficiency (an internal standpoint, defined by cost reduction and productivity enhancement) or the firm effectiveness (denoting the achievement of objectives in relation to external environment and attainment of competitive advantages) (Melville et al., 2004). Other studies, synthesizing the two definitions, define the IT business value by its impacts at both the intermediate process level and the organization-wide level (Gu and Jung, 2013).

3.3. Adoption of ICT

Rapid changes are expected in companies and countries which integrate new technologies and innovations. There are different studies analyzing factors that have an impact on ICT adoption. Analysis of ICT effects in private sector makes sense after thorough studying conditions that must be fulfilled to successfully adopt ICT. According to Alam and Noor (2009) the adoption of the ICT "is considered to be a means to enable businesses to compete on a global scale, withimproved efficiency, and closer customer and supplier relationships"(p. 112).

According to Ashrafi & Murtaza (2008), firms are not reapingthe benefits of adopting ICT due to internal and external barriers: *Internal barriers* (Owner/ manager characteristics Firm characteristics, Adoption and implementation cost, Return on investment) and External barriers (Infrastructure, Social barriers, Cultural barriers, Political, legal and regulatory barriers).

Manochehri, Al-Esmail and Ashrafi (2012) pointed out four main contributions of ICT platforms on organizational performance: More visibility to business enterprises; Provide more information to firms; Allow enterprises to overcome traditional trade barriers; Facilitate financial transactions.

ICT influences flexibility of the organizations and companies. Ollo-Lopez and Aramendia-Muneta (2012) stated that ICT adoption seems to have a positive effect on productivity, directly as well as indirectly, depending on the sectors and to have great potential to support a sustainable development. Furthermore, the use of e-mail, e-commerce, and social media network have cut down the physical transportation involved in sending mail, banking, advertising and buying goods (Manochehri, Al-Esmail & Ashrafi, 2012).

3.4. Direct and indirect effects of ICT on Enterprise Performance

Increasing attention is given to ICT's impact on performance of companies Consoli (2012) summarized various indicators and suggested that ICT effects on performance could be structured and analyzed via efficiency, effectiveness and competitiveness, innovative business and intangible benefits. Santos and Brito (2012) identified that performance of the company/enterprise has two types; financial performance and strategic performance:

3.5. ICT and Business Processes

Recent developments in the field of IT have enormous implications on the operation, structure and strategy of organizations. According to (Evans & Wurster, (2007) the competitiveness of future economies will depend both on the development and application of these technologies. The proliferation of the World Wide Web forced most organizations to rethink the way they do business. Businesses are exposed to new opportunities as they are able to interact more efficiently. (Dennis, 2007).

3.6. ICT and Business Efficiency/ Productivity

IT has become a competitive tool with a potential to change an industry's structure..IT's strongest impact can be illustrated by firm-level analysis as seen in many developed nations. (OECD, 2003). Most of these studies use a combination of growth accounting methods and econometric models to examine samples of industries and firms.

Different studies conducted by experts in Australia, USA and OECD member states like Finland, South Korea, Ireland, the Netherlands and Germay have found that IT has solid impact on productivity and correlation between its use and growth in an economy. Information System Managers' duty of evaluating investments has become difficult due to lack of accurate quantitative measures for the value created by IT. Academics also face this problem.

3.7. ICT and Competitiveness

The literature indicates different relationships: Some studies (Gursoy & Swanger, 2007; Spyros, Euripidis, & Vasiliki, 2011) consider different ICT elements to be important competitive advantage resources (CARs). In contrast, some scholars argue that there is no significant impact from ICT investments on firms value, firm performance and its competitive advantage, generally supporting the ICT paradox theory (Aral, Brynjolfsson,& Wu, 2006; Lee & Connolly, 2010;).

Internet has been recognized as being increasingly important for information dissemination, communication, online purchasing and distribution channel for various business sectors. Yet, Internet presence is not a guarantee for success (Kim, Yuan, Goh, & Antun, 2009).

3.8. Cloud Computing – as ICT Solution for Business Efficiency

Cloud computing helps enterprises to adopt changes while transforming IT into an engine tailored for the business. (Iwona, 2015). Benefits of cloud computing include:

- Cost Efficiency – available at cheaper value compared to own infrastructure, service and platforms;
- Vast Storage Capacity – access to a vast free space for storage of data;
- Easy Backup and Recovery – cloud solutions provide redundant data storage;
- Automatic Software Integration – no need to exert extra effort to align software with system, it is immediate to take place;
- Easy Access to Information – one can easily access the information whenever and wherever internet is available;
- Quick Deployment – after selection of functionalities, system is ready to provide service.

3.9. Big Data Management – as Opportunity for Companies in Competitive Environment

Big Data offers competitive advantage for businesses by offering them the possibility of exploring new business opportunities (Fernando, 2017). The main benefits that companies can get from big data management include increasing: *insights into consumer behavior; sales; sign-ups and registrations; Return on Investment (ROI); customer satisfaction and sales leads.*

IV. SURVEY FINDING AND ANALYSIS

A questionnaire was dispatched to 100 respondents selected from businesses located in Addis Ababa. The return rate was 70%. The following table summarizes this return rate disaggregated by sub-sectors.

4.1. Computers and Internet Penetration

Even if internet penetration varies across nations, there is rapid diffusion of internet and computer use in developed and developed States. The survey result shows the fact of varying computer and internet penetration even across sub-sectors.

- All(100%) of the respondents are currently using computer in their businesses.

  Most businesses use computers to record and process data, which allowed them to save time and reach at accurate results.

- Almost all (96.72%) of the respondents are currently using networks in their businesses.

  The reason behind frequent use of networks is extracting the benefits of rapid, easy, and accurate ways of communication, data exchange and sharing of information. The types of networks that the respondents are using include:

  - ✓ Intranet - 76% of the respondents are using intranet within their business. Intranet is applied within an enterprise as private network. It uses to enhance internal communications

    Respondent companies from the sub-sectors of Transport and Logistics, Printing Industries, Construction, Alcohol, Beer and Liquors and Textile are those who mostly use intranet within their enterprises. Whereas, Tour and Travel Services, Leather Industries, Paper and Paper Products and Education Services are those who use intranet at zero or minimal level.

  - ✓ Extranet - 30% of the respondents are usingextranet within their business.

    Extranets are private networks that work over internet technology and telecommunication infrastructure to share information or execute operations with business partners, suppliers, regulators, vendors, customers or other related entities.The survey result shows that a minimum portion of business companies are familiar with extranets, but . companies working in Textile, Bottled Water, Alcohol, Beer and Liquors are familiar with extranets.

- ✓ Local Area Network (LAN) - 40% of the respondents are using Local Area Network within their business.

  LAN is a specific type of intranet that interconnects computers and related devices within a limited area. LAN facilitates sharing of devices such as printers, scanners, and the like from various work stations or computers.
- ✓ Wide Area Network (WAN) - 31% of the respondents are using Wide Area Network within their business.

  WAN is a network that interconnects geographically distributed multiple local area networks. Construction, Textile, Electronics, Plastic Industries and Health Services are sub-sectors use WAN. It can support company's communication and data exchange with the coverage of near infinite geographical distance. Yet, it might have greater high initial investment and can be challenged by availability of adequate telecommunication infrastructures.

- Most (86.6%) of the respondents are currently using internet in their businesses.

  Significant portion of the respondents are using internet in their day to day business operations.
- Significant number (56.3%) of staffs of the respondents companies are currently using internet in their businesses.

  According the respondents, 56.3 percent of their workforce use internet for their day to day operation.
- Significant difference between the types of internet connectivity technologies. Broadband internet is substituting narrowband connection. The most prevalent options are:

  - ✓ Landline telephone line (DSL) – in general terms this type of connectivitydelivers Internet via copper phone lines. It is widely available and relatively cheaper.
  - ✓ Cable TV line (cable) –Delivers Internet via copper coaxial television cable. Usually it is better than DSL in terms of speed and latency period.
  - ✓ Fiber-optic lines (fiber) –as the best option of connectivity, fiber optics is most preferable due to its reliable speed and multi-device connectivity.

The following table presents the types of internet connection technologies chosen by the respondent companies.

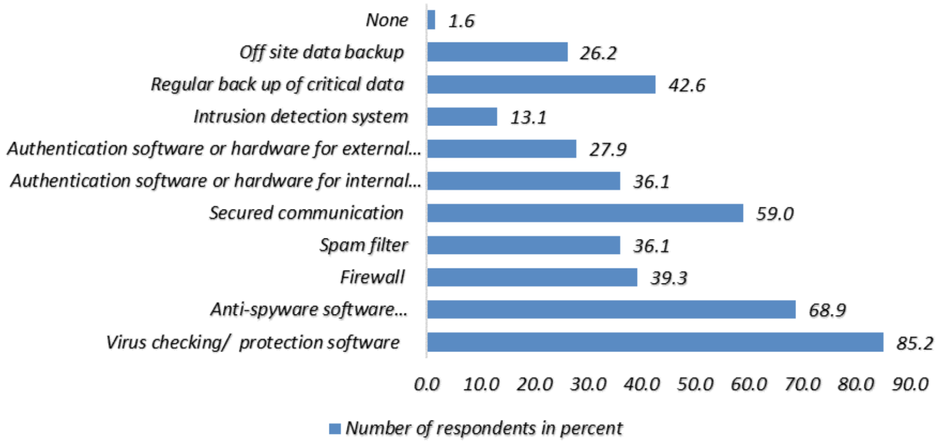
4.2. Internet Security Impacts on Businesses

One of the fundamental issues in using ICT in businesses is internet security. It is about how protecting confidential information from accidental or illicit access.

Ways in which the security of confidential information can be breached over internet include: Infecting hardware with viruses and malware; attacking technology or website; un-authorized access to information, hardware devices and Spamming of with emails containing viruses, etc…

The graph below indicates how the survey respondents placed various types of internet security measures in order to safeguard their business information and related hardware or software.

Figure 1: ICT Security Measures Undertaken



As the graph shows, virus regularly updated virus checking and using updated anti-spyware software are usually preferred types of internet security measures.

- More than one third (37.7%) of respondents have experienced attack by a virus or similar intervention which has resulted in loss of data or time, or damage to software.
  From the total of 61 respondents 37.7% have experienced cyber attacks which has affected their operation. and significantly impacted negatively on their business operation.

4.3. Electronic Commerce (Commercial Transaction via Internet)

Electronic commerce refers to the operation of making purchase or sales of goods and services, transferring of money or data through electronic network, mainly the internet. The types of e-commerce transactions can be categorized as business-to-business, business-to-consumer, consumer-to-consumer or consumer-to-business. Respondents reply about using e-commerce is analyzed as follows.

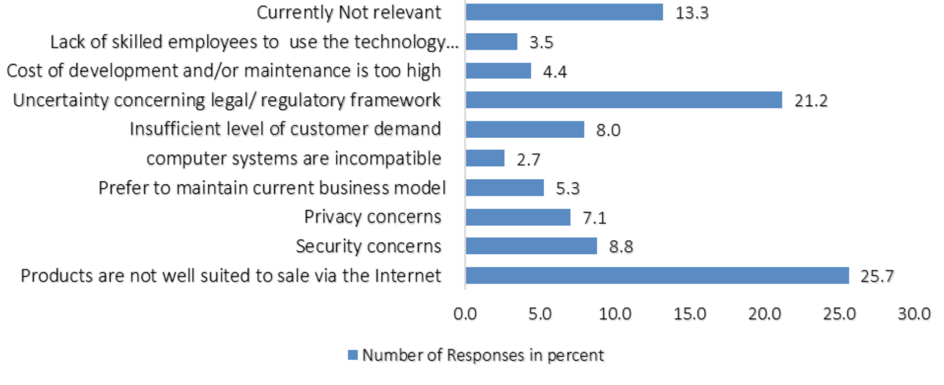
4.4. Making Purchases and Sales through Internet

- Only one-third (32.7%) of respondents have experiencedmaking purchases from sellers through internet.
- Only one-fourth (16.3%) of respondents have experienced making sales tobuyers through internet.
- As outlined by the respondents, the benefits of using e-commerce include Reduced transaction time, Increased quality of customer service,Lower business costs,
- Increased sales volume and/or number of customers,Keeping pace with competitors, and Able to better target customers individually.

4.5. Challenges of Making Business Transactions through Internet

Online businesses are challenged by infrastructural, legal, design/product, security and perception. Lack of awareness on how to design products/ services to be sold/ , uncertainty regarding the regulatory requirements were presented as challenges by the respondents.

Figure 2: List of limitations to use electronic commerce



4.6. Using Web-sites to facilitate Business Transactions

Developing a website is an easy way to present products and services with reduced cost of marketing, efficient use of time advantage, and improved customer interaction. 77.6% of respondents have developed web-site for their business companies with various features.

4.7. Communicating with Business Regulatory Authorities through Internet

Internet facilitates communication with business regulatory authorities. Most respondents use internet to obtain necessary information and service forms from governmental agencies.

4.8. The Role of Business Associations in Enhancing ICT Use in Businesses

Business associations play significant role by enhancing efficiencies of their members with regards to using ICT Four business associations were included in the survey to understand the current level of involvement of associations in enhancing ICT use in business.

- **All of the respondent associations are helping members to adopt ICT and automate operations**

The respondents replied that they are helping members to adopt ICT. Besides, few of them have provided technical trainings and knowledge sharing on how to automate basic business operations.

- **Perception of Associations regarding the General Level of Automation and ICT Use of Member Business Companies.**

Three-fourth of the respondents believe that the use of ICT is at a basic level, i.e. remains to be limited to using scanners, printers and computers and internet. Firms use internet to exchange information through e-mail, Skype, Instagram and related social media.

- **Major challenges to the ICT adoption and automation in the business enterprises**

According to the Respondents, the major challenges related with adoption of ICT are related with unfavorable policies, skilled man power and lack of investment.

- **Lack of any specific incentives and assistance given that encourage automation and ICT diffusion in your industry**

The respondents agreed to the lack of specific incentives and assistances, like technical help, skill development; expert visit and advisory services; tax reimbursement, automation grants and investment capital at reduced cost or other financial help, for companies to discourage automation and ICT diffusion.

V. SUMMARY OF FINDINGS

Using ICT ensures business efficiency, promotes competitive advantage and brings customer satisfaction. This study examines factors that affect the role of ICT for promotion of businesses.

5.1. Challenges Undermining the Role of ICT for Promoting Businesses in Ethiopia

- **Inadequate standards and weak enforcement capacity of Legal frameworks, Policies, Standards, Guidelines**

Ethiopian Government recognizes that ICT is an enabler and as industry/ sector for socio economic development of the people. However, there are challenges that are reflected on implementing the policy directives such as

  - National inter-operability standards by which various systems can integrate and smoothly exchange data;
  - National ID/ Digital ID is still in the way of establishment and is the highest necessity;
  - Lack of adequate readiness to cop up with emerging technologies, for eg., IOT AI BIG DATA

- **Lack of up-to-date research based information to support policy intervention and strategy adjustment**

The country lacks timely and standardized research outputs regarding ICT interventions and their impacts. In line to this universities and research institutes do not have adequate and active linkage with government ICT centers and incubation hubs.

- **Slow Implementation of National ICT strategies and programs. Limited capacity:**

ICT infrastructure development projects require effective project management skills. There needs to be commitment from the top to develop effective ICT related curriculumand assessment of professionals.

- **Underutilized infrastructure (fiber optics, data centers, etc)**

Currently, the country has ICT infrastructure development initiatives that still need to be used fully and efficiently. There are gaps in promoting local content providers and enhancing cooperation for optimal use of such resource.

Disadvantages of Monopoly Power in the Telecom Sector

In Ethiopia, the telecom sector is run by Ethio-Telecom, a State owned monopoly, and monopolizing the sector has its own disadvantages: the price, quality and other regulatory issues will be controlled by one entity- eventually; it will have an impact on customers' satisfaction. It is also considered to be barrier for acceding to the World Trade Organization (WTO).

6. PRIORITIZED STRATEGIC ICT RECOMMENDATIONS REQUIRING BUSINESS ADVOCACY

The Government of Ethiopia has embarked on a journey of ICT-enabled transformation to promote economic growth. Possible strategies can be developed in the areas of policy, regulatory, and institutional frameworks. The following contains strategic actions that must be given priority by AACCSA with regards to using ICT to maximize business efficiency.

Table 4: Strategic ICT Recommendations Requiring Business Advocacy

Area of Intervention	Strategic Actions	
Laws, Policies, Regulations, Strategies	LR 01	Develop a targeted strategy for developing a local IT-based services and BPO (Business Process Outsourcing) industry;
	LR 02	Set-up clear procedures for joint-venture (JV) partnership of local and foreign ICT companies;
	LR 03	Establish adequate legal Strategy; for IPR (Intellectual Property Right) to remove pirated software and promote regulatory frameworks for developing the IT-BPO sector and for implementing innovative micro-work programs;
	LR 04	Establish a legal framework and regulatory systems for the following e-government interventions: • Interoperability framework; • Cyber-security framework; • Electronic identification; • Digital signature; • Mobile and electronic payment; • E-commerce • Open government framework;
	LR 05	Establish an on-line payment platform through which: • Companies can buy/sell software, infrastructure and platforms as a service over the cloud; • Payments are made in legal and efficient ways;

Institutions, Agencies and Entities	IA 01	Strengthen Business and Professional Associations in the ICT Industry by leveraging international "good" practices;
	IA 02	Establish a vibrant collaboration between Universities and Industries in the ICT sector ;
	IA 03	Building the capacity of the regulator in defining quality benchmarks, auditing QoS reports that are submitted by the operator; applying appropriate measures when the operator fails to meet those standards
	IA 04	Establish a strong and focused collaboration of the ICT and Financial Sectors of the country in order to avail adequate capital for innovators, start-ups and local ICT companies.
	IA 05	Give adequate attention to the sectoral leadership of ICT through prioritizing the ICT in federal and regional government structures;
Incentives and Promotion	IP 01	Strengthen incentives for attracting foreign investors including tax incentives, training subsidies, and infrastructure and business support services
	IP 02	Encourage start-ups through incentives in terms of tax reduction, free incubation centers, duty free import of equipments, skill database repository, entrepreneurship development programs, etc
	IP 03	Effort to facilitate access to finance for start-ups through: • Contract financing – business funding and commercialization of business ideas; • Project financing – specific supports
	IP 04	Offer Research and Development subsidies as incentives;
	IP 05	• Organize annual Business-Technology Alignment Award programs; • Generate and promote business success stories, emphasizing benefits gained from ICT adoption and integration;
Infrastructure,		
Connectivity	IC 01	Accelerate rollout of high-speed broadband infrastructure to attract foreign firms and support business innovation and productivity across the economy;
	IC 02	Take rigorous steps to unleash the benefits of competitive telecom market and services through liberalizing the telecom sector;
	IC 03	Further promote development of ICT parks for housing and incubating IT-BPO companies and startups
	IC 04	Explore cloud computing infrastructure and services: • PaaS (Platform as a Service), • IaaS (Infrastructure as a Service), • SaaS (Software as a Service),

Services (enablers)	S 01	Develop a strategy for fostering mobile money services, which can be a key enabler for improving access to finance;
	S 02	Enhance the development of mobile applications since in the future mobile phones will become most common web access device worldwide particularly in middle and low-income countries. This will have a significant potential of creating income opportunities for software developers
	S 03	Remove Anti-competition favors: • Sales registration machines for few firms; • Research and development projects for universities, government owned organizations, etc;
	S 04	Enhance the awareness of the business community and the general public about ICT services
	S 05	Revise the public procurement procedures in order to consider the knowledge, expertise, experience and resource mobilization capacity of local firms and start-ups in the ICT industry
	S 06	Since the country has vast domestic market, it is most significant to enhance the role of electronic services (B2B, B2C) provision by which companies and individuals can handle their purchases and sales on-line.
Skills, Training, Capacity building	STC 01	Prepare a strategy for systematically developing skills and addressing skill gaps/deficiencies that could be taken up in close partnership with the private sector
	STC 02	Partner with universities and private sector in developing targeted programs for developing Soft skills and ICT skills;
	STC 03	Frequently update the higher education curriculum and short training course in the ICT sector in collaboration with the private sector and research institutes
	STC 04	Establish nationwide ICT skill Assessment Certification, and Grading program in collaboration with higher education centers;
	STC 05	Collaborate with global venture and incubating firms and link aspiring entrepreneurs in Ethiopia to global
Startups		
	STC 06	Expand the practice of hosting apprentice-ship and graduate projects of ICT students in private companies in order to facilitate the knowledge transfer and local innovations

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Assessment of COMESA Trade Policy vis-á-vis Ethiopia's Participation

Atnafu Gebremeskel (PhD) and Abebaw Zerfu*

Abstract

For promoting economic growth and reducing trade barriers, creating and integrating with regional trade blocks have become instrumental for many developing as well as African countries. In addition, forming or joining regional Free Trade Areas (FTAs) can help member countries to abolish or reduce barriers of trade among themselves while maintaining independent external tariffs from non-FTA trade partners. The Common Market for Eastern and Southern Africa (COMESA) is the major trade bloc in Africa. Ethiopia is one of the member countries of COMESA but not a signatory of the Free Trade Area (FTA). Ethiopia is now deliberating whether it should join the COMESA FTA. Thus, the overall objective of the study is to investigative various components of the COMESA trade policy, to review the procedures and institutional arrangements therein, and evaluate their overall implications on pros and cons for the country's accession. The study used primarily and secondary sources of data. The study also incorporated inputs from government and selected domestic manufacturing enterprises. The country should clearly identify the static and dynamic gains from FTA. The secondary sources include desk review including theoretical literature and associated empirical evidences on the impact of regional trading blocs in general and that of Ethiopia vis-a-vis COMESA and FTA in particular. The policy should disaggregate the best entry point and fine tune the domestic and international trade strategies towards COMESA FTA if the country is to reap the benefit.

It was identified that there are no considerable institutional and legal constraints that could impend the country's accession to COMESA FTA. It is due to the infant industry argument that the government is pending the accession of the COMESA FTA up until now. The assessment results showed that being a signatory of the COMESA –FTA would help Ethiopia to increase its economic, welfare and promoting non-economic benefits, such as peace and stability by. However, the low competitiveness of the economy as well as the required preparation on part

* Atnafu Gebremeskel is a PhD holder in Economics specialized in International Trade and International Finance from Addis Ababa University.
Abebaw Zerfu holds MA in Economics specialized in Applied Trade Policy Analysis from Addis Ababa University.

of the manufacturing sector, membership process to the FTA should be made on gradual level. The recommendation of the research notes that liberalizing the country's current account should be commenced initially followed by formulating clear trade policy and establishing/strengthening associated institutional frameworks. Most importantly, sequencing and timing should give priority for removing all bottlenecks that have become stumbling blocks the efficiency of the country's economy. Access to finance by firms, high cost production, shortage and quality of raw materials, inefficiency of trade facilitation services, shortage and management of foreign exchange, high labor turn-over, power interruptions were identified as challenges that need to be curtailed paralleled with institutional reforms which ensure accountability and zero tolerance for corruption in the licensing and foreign exchange allocation process. In order to be part of the FTA and to be competitive, the study underlines the importance of adopting comprehensive domestic and international trade policies and legal framework for importing and exporting sectors including policy discretion over tariffs and other trade measures are key elements in boosting competition and productivity in the Ethiopian economy. Strengthen the infrastructure of quality assessment and align Ethiopia's product standards, procedures and technical requirements with the regulations in COMESA. Taking into account, the weak tax base and less developed fiscal system, it is crucial that accession to the FTA should be accompanied with fiscal reforms to enlarge the domestic tax base.

I. Introduction

1.1. Background

For many developing countries integration into the global and regional trading system is critical to facilitate informed decisions that will help maximize the benefits of increased integration while limiting the negative impacts therein. Forming or joining regional Free Trade Areas (FTAs) can help member countries to abolish or reduce barriers of trade among themselves while maintaining independent external tariffs from non-FTA trade partners. FTAs have been established throughout the world and some countries belong to more than one. Members may also arrange bilateral trade agreements or agree to multilateral rules of engagement in trade.

Ethiopia is pursuing a number of FTAs, including multilateral trade agreements and numerous bilateral and regional trade pacts. Ethiopia applied to join the World Trade Organization (WTO) in 2003. It is also a member of the Common Market for Eastern and Southern Africa (COMESA) trade bloc, although it has not yet acceded to the COMESA Free Trade Area (FTA) and Customs Union (CU) arrangements. The COMESA with 19 member countries is one of the major FTA in the continent. At the continental level, Ethiopia has signed and ratified the Abuja Treaty that aims to establish an Africa Economic Community (AEC) among the continent's 54 countries. Formation of a Tripartite Free Trade Area (TFTA) among the three RECs namely COMESA, EAC and SADC is part of the preparatory action based on the Abuja treaty.

Out of the 19 COMESA member countries, 15 of them have joined the FTA; Uganda, Libya, Egypt, Sudan, Kenya, Rwanda, Burundi, Mauritius, Comoros, Zimbabwe, Zambia, Djibouti, Madagascar and Malawi, whereas Eritrea, Seychelles, the Democratic Republic of Congo (DRC) and Ethiopia are still in the process of assessing the costs and benefits to join the FTA.

The Ethiopian economy has significantly grown over the past decade. According to the World Bank, the growth averages around 10.1percent for the last 15 years. Ethiopia's allocation of public investment to economic and social infrastructure has been one of the highest in Africa, with 63% of the latest budget allocated for education, health and infrastructure development. Ethiopia's development finance model has largely been relying on local resource mobilization. Nonetheless, in recent years, Ethiopia has been running huge fiscal deficit over the years. Though trade flows have also increased imports surpass exports. For instance, the country's trade export in 2018 was USD $ 3 billion while the import was USD $ 18 billion.[43] Although lower than 3 percent as a share of Gross Domestic Product (with the figure remaining debatable), a threshold recommended by the European Central Bank (ECB) and adopted largely by most countries in the world, the absolute size of the annual budget deficit continues to grow.

Given increased borrowing by public enterprises to finance infrastructure development, the country has also experienced high levels of inflation. As such, deficit financing has been the major fiscal anchor and hence the focus of the state for decades. External loans from multinational financial institutions (largely concessional) and commercial loans have also been essential elements of Ethiopia's development finance matrix. Researchers identified as the finance matrix has caused an incessant debt buildup, with the national debt stock standing around US$29 billion[44] and the cost of repayment constantly growing.

Recognizing the benefits of integrating its economy with trade blocs, Ethiopia is now deliberating whether it should join the COMESA FTA. However, Ethiopia has no domestic and international trade policies and the sector is governed by the strategy set in the second growth and transformation plan. Reformative policies aimed at ensuring rapid integration into COMESA are not yet fully in place or implemented to complete the accession. Broad policy discretion over tariffs and other trade measures are in the hands of Ethiopia's policy makers. Accession requires thorough preparation to allow well informed decisions on trade policy reforms that need to be made in-country to meet the requirements of accession. It is important for Ethiopia to find the right mix of policies that will enable it to achieve its Growth and Transformation Plan II and the long-term goal of achieving middle-income country status by 2025 within a more open economy.

This study aimed to assess how the various components of the COMESA trading policy and procedures implicit on Ethiopia's accession to COMESA- FTA. The study undertakes an assessment on COMESA trade policy vis-á-vis Ethiopia's participation. This assessment include investigation of existing domestic and international trading regime; reviewing literature on industrial competitiveness; identifying the legal, regulatory and institutional constraints as well as the overall trade facilitation in relation to COMESA systems.

[43] ibid
[44] ibid

1.2. The Research Objectives

The general objectives of the study are to undertake an investigative assessment on policy components; to review the procedures and institutional arrangements of COMESA and evaluate their overall implications on Ethiopia. In light of these, the general objectives are expected to:

- Review and assess the existing domestic and international trading regimes and institutional set-up of the country vis-á-vis COMESA trading policy;
- Review of previous studies and documents on the subject matter;
- Undertake a desk review on the competitiveness of Ethiopia's economic sectors, notably evaluate readiness and capacities of light industries and manufacturing in participating in COMESA FTA;
- Identify institutional and legal constraints that impede participation in COMESA FTA;
- Review the efficiency of existing trade facilitation services within various Ministries, agencies and identify gaps for improvements vis-á-vis COMESA; and
- Forward recommendations to improve the existing situations and to harness the benefits from the regional trade integration.

1.3. Scope of the Study

The scope of the study covers the following:

- Undertake theoretical and empirical literature, review on the business and economic impacts of regional free trade areas;
- Review the basic tenets of regional free trade agreements, specifically COMESA and evaluate its alignment with existing trading regime of Ethiopia;
- Evaluate the status of the country's investment rules, regulations and incentives on manufacturing sector vis-á-vis COMESA systems;
- With stakeholders perspectives, evaluate domestic and international trading policies, legal, regulatory and institutional frameworks of Ethiopia vis-á-vis COMESA policy, and propose alternatives to enhance efficient and effective implementation of COMESA rules;
- Identify the existing opportunities and challenges in COMESA trading regime;
- Assess and propose measures to be taken from best benchmark practices of signatory countries on trading polices, regulations and institutional set-ups; and forward policy recommendations.

1.4. Methodology and Approach

This study incorporated the following methodological approaches:

- Undertake rigorous desk review on theoretical developments in regional integration and existing empirical evidences of different categories, mainly classified under both pros and cons of the concepts and applications of regional integrations such as Customs Union and FTAs.
- Reviewing documents such as growth and transformation plan of Ethiopia with particular emphasis on the strategy of trade sector, the COMESA treaty, the regulatory and institutional framework for the manufacturing sector, empirical evidences on the subject matter and existing literature on the competitiveness of the country's economic sectors.
- Undertaking analysis on the trade relation of the country with COMESA members, trade volume and value with COMESA member countries.
- Compiling best practices from signatory countries and identify relevant lesson for Ethiopia ,and
- Conducting in-depth interview with key informant governmental stakeholders and export oriented manufacturing firms.

II. Literature Review

2.1. Theoretical and Empirical Review

Developments in the theory of customs unions have remarkably kept pace with those in customs unions themselves (Krauss, 1972). Since the theory of customs unions has been refined, extended and re-interpreted with a major change in theoretical orientation shifting away from the question of the economic effects to the more fundamental one, why they are formed in the first instance (For detail, see Krauss , 1972).

The question on the economic rationality of customs unions has been the theoretical issue of the past decade as explicitly defined by Jacob Viner (1950), as to whether a customs union represented a movement towards free trade or greater protection (Melvyn B. Krauss, 1972).

The two major theoretical motivations for the formation of trading blocs are the allocation and the accumulation (or growth) of free trade within a regional bloc. With respect to the allocation effect, (UNCTAD, 2009 and Elmorsy, 2015) researches noted that in a competitive economy, the demand for a good directs productive resources to the production of that good. Given that, the imposition of tariff and non-tariff barriers between countries interferes with this signal, the removal of such trade barriers in the context of regional integration is supposed to increase efficiency in resource allocation (Samah SA Elmorsy, 2015).

On the theoretical front, Lipsey (1960) argued that it is the first necessity to define customs-union theory. In general, the tariff system of any country may discriminate between commodities and/or countries. Commodity discrimination occurs when different rates of duty taxed on different commodities while country discrimination occurs when the same commodity exposed to different rates of duty, while the rate varies according to the country of origin. The theory of customs unions may define as that branch of tariff theory that deals with the effects of geographical discriminatory changes in trade barriers (Lipsey, 1960).

Lipsey (1960) argued that attention should be turned to the scope of existing theory. Subsequently, Lipsey exposed that the existing theory that mainly confined to a study of the effects of customs unions on welfare rather than the balance of payments or rate of inflation. “These welfare gains and losses, the subject of the theory, may arise from different sources. Some of these are:(1) the specialization of production according to comparative advantage which is the basis of the classical case for the gains from trade; (2) economies of scale; (3) changes in the terms of trade; (4) forced changes in efficiency due to increased foreign competition; and (5) a change in the rate of economic growth. The theory of customs unions has been almost completely confined to an investigation of (1) above, with some slight attention to (2) and (3), (5) not being dealt with at all, while (4) is ruled out of traditional theory by the assumption (often contradicted by the facts) that production is carried out by processes which are technically efficient”.(Lipsey, 1960).

A study of the welfare consequences of custom unions, therefore, is keen to factors that increase or decrease the volume of international trade. If the influences that tend to cause trade expansion are found to predominate, it may be predicted that a customs union will raise welfare.

The theoretical outcome of Lipsey (1960) turned out in to two conclusions: the first is that, given a country's volume of international trade, a customs union is more likely to raise welfare the higher is the proportion of trade with the country's union partner and lower with the outside world. The second is that a customs union is more likely to raise welfare the lower is the total volume of foreign trade. That is lower purchases from the outside world relative to purchases of domestic commodities. This means countries that form customs union are those doing a high proportion of foreign trade with their union partner and making high proportion of their total expenditure on domestic trade. Countries that did not form customs union are likely having low proportion of total expenditure on domestic trade.

According to Dupasquier and Dsakwa (2006), a corollary of the allocation effect is the so-called "scale and variety effects" where the scale effect relates to the protection of many inefficiently operating large scales industries as seen in Africa and other developing economies during the import-substitution era. Opening up markets in the context of trade liberalization policy or within a regional trade bloc would reduce this protection. On the other hand, creation of large markets through regional integration is possible to allow small firms to reach their optimal potential. This in turn would lower average costs and reducing consumer prices (Dupasquier and Dsakwa, 2006).

As Elmorsy (2015) noted the variety effect, the idea is simply that integrating a country's economy into a wider market allows consumers to choose from a varieties of goods and increases their welfare Increased competition across a wide range of products can also lower consumer prices. From a firms' perspective, the opportunity to choose from a wider range of production factors that would enable them to use the most appropriate inputs that could increase productivity. According to UNCTAD (2009), the second major effect of regionalism is that accumulation as observed through the investment and trade channels. When economic integration expands within regional markets, more suppliers are attracted to the regional market and firms have the opportunity to specialize. This reduces average production costs within the trade bloc, increasing the return to factors of production and, hence, increases physical and non-physical (including knowledge) factor accumulation. Moreover, regionalism lead to technological spillovers as result productivity increases, costs of production reduced, attracting more investment and hence, factor accumulation. The combined effects of regional integration on efficiency and accumulation lead to recognize the positive effects of on economic growth. Moreover, free movement of capital, labor and other factors of production is often an explicit objective of economic integration schemes. Indeed, free mobility of production factors can help to reduce production costs in partner countries where these factors are relatively scarce and attract productive investments (Elmorsy, 2015).

Despite the positive effects of regional integration, some criticisms aired as well. Proponents of free trade argue that regional trade blocs limit rather than encourage global trade expansion. Their argument based on the fact that regional blocs tend to raise tariff and non-tariff walls around them, reducing trade flows from outside the bloc. This may lead to inefficiencies in resource allocation and production, reducing the welfare gains from competition (UNCTAD, 2009).

Kirman (1973) exposes the effects of the trade-diverting customs union. Kirman argued that if after the formation of a trade diverting customs union commodities are consumed in the domestic country in the same proportion as before, then the welfare of that country is necessarily diminished. It is then easy to see that when this condition is sufficient then it doesn't imply that the initial tariff would be ineffective.

Bhagwati (1971) says that if we restrict our attention to a certain subset of "trade diverting" customs unions then Viner's proposition is verifiable. Viner specifically stated problem of this approach is that any move from a lower cost to higher cost producer is identified as " trade diverting" and the formation of any "trade diverting" customs union is undesirable. Lipsey imposed his restriction on preferences to ensure that this condition would be satisfied whatever trade diverting customs unions formed. If we require Bhagwati's condition should be met after the formation of any trade diverting customs union, then to ensure this, it requires to impose a restriction on the preferences of the home country (Kirman, 1971).

2.2. Evolution of Regional Integration in Africa Focusing on COMESA

The history of COMESA formation began in December 1994 to replace the former Preferential Trade Area (PTA) that existed since 1981. COMESA (as defined by its Treaty) was established as an organization of free and autonomous states that agreed to co-operate in developing natural and human resources for well-being of their people. It had wide-ranging of series objectives including the promotion of regional peace and security (COMESA Administrators 2000).

Article 3 of the COMESA treaty stipulates the aims and objectives of the Common Market:

a) To attain sustainable growth and development of the Member States by promoting a more balanced and harmonious development of its production and marketing structures;
b) To promote joint development in all fields of economic activity and the joint adoption of macro-economic policies and programs to raise the livelihood

standards of its peoples and to foster closer relations among its Member States;

c) To co-operate in the creation of an enabling environment for foreign, cross border and domestic investment including the joint promotion of research and adaptation of science and technology for development;

d) To co-operate in the promotion of peace, security and stability among the Member States to enhance economic development in the region;

e) To co-operate in strengthening the relations between the Common Market and the rest of the world and also the adoption of common positions in international forum; and

f) To promote the establishment, progress and realization of the objectives of African Economic Community

In order to promote the achievement of Common Market objectives as Article 3 of the Treaty and in accordance with the relevant provisions of the Treaty, Article 4 of the treaty lists and enacts the specific undertakings as follows Member States shall:

1. In the field of trade liberalization and customs co-operation:

a) Establish a customs union, abolish all non-tariff barriers to trade among themselves; establish a common external tariff; co-operate in customs procedures and activities;

b) Adopt a scheme of common customs bond guarantee;

c) Simplify and harmonize their trade documents and procedures;

d) Establish conditions regulating the re-export of goods from third countries within the Common Market;

e) Establish rules of origin with respect to products originating in the Member States; and

f) Recognize the unique situation of Lesotho, Namibia and Swaziland within the context of the Common Market and grant temporary exemptions from the full application of specified provisions of this treaty.

2. In transport and communications:

a) Foster such co-operation among them as would facilitate the production of goods and facilitate goods and services as well as the movement of persons;

b) Make regulations for facilitating transit trade within the Common Market; and

c) Adopt a Third Party Motor Vehicle Insurance Scheme

3. In industry and energy:

a) Eliminate rigidities in the structures of production and manufacturing to provide goods and services that are of high quality and are competitive in the Common Market;

b) Provide an appropriate enabling environment for the participation of the private sector in economic development and co-operation within the Common Market;

c) Co-operate in the field of industrial development;

d) Adopt common standards, measurements systems and quality assurance practices in respect of goods produced and traded within the Common Market; and

e) Provide an enabling stable and secure investment climate.

4. In monetary affairs and finance:

a) Co-operate in monetary and financial matters and gradually establish convertibility of their currencies and a payments union as a basis for the eventual establishment of a monetary union;

b) Harmonize their macro-economic policies;

c) Remove obstacles to the free movement of services and capital within the Common Market; and

d) Recognize the unique situation of Lesotho, Namibia and Swaziland within common market context of and grant temporary exemption to Lesotho, Namibia and Swaziland from the full application of specified provisions of the Treaty.

5. In agriculture:

a) Co-operate in the development of agricultural;

b) Adopt common agricultural policy;

c) Enhance regional food sufficiency;

d) Co-operate in the export of agricultural commodities;

e) Co-ordinate their policies regarding the establishment of agro-industries;

f) Co-operate in agricultural research and extension; and

g) Enhance rural development

6. In economic and social development:

a) Harmonize the methodology of collection, processing and analysis of information required to meet the objectives of the Common Market;

b) Harmonize their laws to the required extent for proper functioning of Common Market;

c) Promote the development of the least developed countries through the implementation of special programs in various fields of development;

d) Adopt a regional policy that will look into all possible economic problems that Member States may face during the implementation of this Treaty and propose ways and means of redressing such problems toward equitable and balanced development within Common Market;

e) Remove obstacles to the free movement of persons, labor and services, right of establishment for investors and right of residence within the Common Market;

f) Promote co-operation in social and cultural affairs between themselves;

g) Co-operate in tourism and wildlife development and management;

h) Co-operate in the development and management of natural resources, energy and environment; and

i) Take, jointly, such other steps as are necessary to further the aims of the Common Market.

However, due to COMESA's economic history and background its main focus is on the formation of a large economic and trading unit that is capable of overcoming all of the barriers that are faced by individual states (COMESA Administrators 2003). COMESA is concentrating on trade in goods and services; monetary integration, including payments and settlement arrangements; investment promotion and facilitation; and infrastructure development (air, road, rail, maritime and inland transportation, ICT and energy). COMESA launched its customs union in June 2009, that allows the application of a single tariff while the common external tariff (CET) in all COMESA States for an interim of three years. A program for eliminating non-tariff barriers implemented through organizational structures at the national and regional level. By 2025, COMESA expects to remove all tariff barriers. Consultations on a single FTA among COMESA, EAC and SADC are ongoing, and it is expected that the three regional economic communities will coordinate their programs to form a single customs union comprising all three.

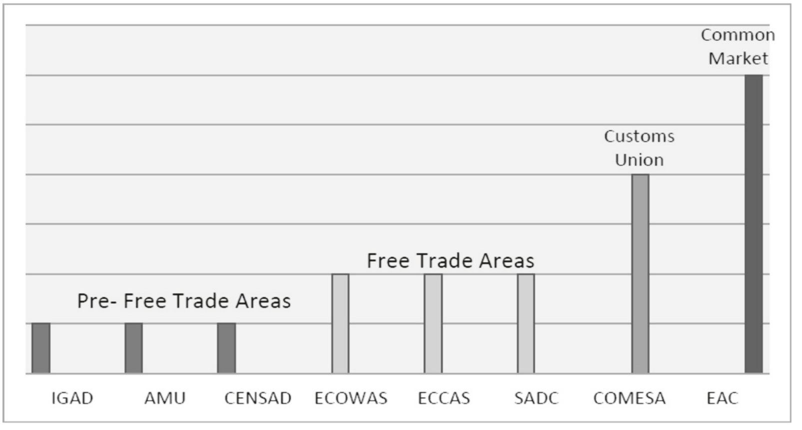
An important part of economic integration is monetary integration that includes integration of financial and banking systems, policy coordination and ultimately the adoption of a common currency. The eight regional economic integration initiatives recognized by the AU are moving towards implementing the Abuja Treaty at different speeds (Oloruntoba, 2016). Africa is known for its different overlapping national and sub-regional economic integrations (Geda and Kebret, 2007). However, the recent paradigm shift, the COMESA–EAC–SADC tripartite free trade area, hoped to address the challenges of overlapping membership through harmonizing programs across the three regional economic integration initiatives (Oloruntoba 2016; Erasmus and Hartzenberg, 2012).

On the other hand while Samah SA Elmorsy (2015) investigating the case of Egypt, expanded their argument as follows: Regional integration arrangements take a variety of forms starting with preferential trade area and aiming to reach economic and political union. Countries can start with any arrangement, but most begin by removing impediments to trade among themselves. Then they introduce deeper and wider integration mechanisms (Economic Commission for Africa (ECA, 2004). In 1991, African Heads of States and governments signed the Treaty (Abuja Treaty) establishing African Economic Community (AEC) that provides the guiding principles and goals; and strengthen the integration agenda. The idea is to build the AEC as an integral part of the African Union. The AEC is to be formed in six phases over 34 years:

1. First phase (five years): Strengthen existing Regional Economic Communities (RECs) create new RECs in regions where they do not exist and to be completed in 1999;
2. Second phase (eight years): Ensure consolidation within each REC, with a focus on liberalizing tariffs; removing non-tariff barriers (NTBs); harmonizing taxes; and strengthening sector integration regionally and continentally in trade, agriculture, money and finance, transport and communications, industrial development and energy (to be completed in 2007);
3. Third phase (10 years): Set up in each of RECs a free trade area (FTA) and Customs Union holding a common external tariff and a single customs territory and expected to be Completed in 2017;
4. Fourth phase (two years duration, 2017-2019): Coordinate and harmonize tariff and non-tariff systems among the RECs with a view to establishing a continental customs union.
5. Fifth phase (four years completed in 2023): Set up an African common market.
6. Sixth phase (five years, completed in 2028)): Establish the AEC, including an African Monetary Union and Pan- African Parliament. (Economic Commission for Africa ECA 2012:11-12).

Figure 1 below the vertical column indicates the status of economic integration of RECs in Africa. EAC (Eastern African Community) is at the most advanced integration stage. After five years operationalizing its Customs Union, EAC launched its Common Market in 2010. COMESA launched its Customs Union in 2009 and found at second level of integration. As third group of integration, ECOWAS and SADC have made progress in building their FTAs while ECCAS has launched its FTA but is facing enormous challenges in implementing it. The lower stage of economic integration includes UMA (West African Economic and Monetary Union), CEN-SAD (Community of Sahel- Saharan States) and IGAD (Intergovernmental Authority on Development) that are still at cooperative stage amongst their Member States.

Figure 1: Status of integration of the African RECs



Source: African Union Commission, 2013

According to UNECA (2010), COMESA has made significant progress as numbers of COMESA member states treat visa issues with great flexibility. Using the protocol on the gradual relaxation of visas, a number of COMESA countries issue visas upon arrival. COMESA also approved two protocols, free movement of persons, labor, services, and right of establishment and residence that was adopted in 2001 during the 6thSummit of COMESA in Egypt, and the next protocol that involve gradual relaxation and eventual elimination of visas, adopted in 1984. However, there are only few i.e, four of the members signed out of 19 States. To remove all barriers and facilitate free movement, COMESA developed a timetable between 2000 and 2014.

Table 1: Proposed COMESA Timetable, 2000-2014

Timeframe	Project (Progress)
2000 - 2002	Gradual removal of visa requirements
2002 - 2006	Movement of skilled labor and services
2006 - 2010	Right of establishment
2014	Right of residence (20 years in COMESA)

Source: UNIECA (2010)

A project to coordinate visas was in progress and expected to complete by 2014. A database is set to monitor the movement of persons, in particular, those who are not committed to COMESA. Policies are also being developed on the treatment of asylum seekers, the national registration of citizens and the use of a common travel certificate (UNIECA, 2010)

2.3. Ethiopian Trade Policy and Regulations

Ethiopia did not come up with explicit domestic and international trade policies. Different polices are embedded in the sectoral planning documents. The most comprehensive trade policy document is the one enshrined in the Growth and Transformation Plan II (GTP II) 2015 entitled "Growth and Transformation Plan II (GTP II) (2015/16-2019/20) Volume I: Main Text". In GTP II, trade related strategies labeled as "Trade Strategic Directions Rules and Regulations".

According to GTP II, continuous and sustained capacity building activities were planned to elevate those trade change army sector to the anticipated level of effectiveness. Strengthening of the sector system and organizational capacity as well as foundation of modern and reliable trade information system will be established. Creating fair and competition based modern trade system and technologically supported systems of registration were among the efforts planned to enhance the capacity of trade services. For the purpose of community health and safety assurance, inspection of products and service qualities is considered. In addition, efficient and effective market expansion and networking systems used to upsurge the generation of foreign exchange. The building of modern commodity exchange system consolidated when new agricultural products added to the modern commodity exchange system. The WTO and regional FTA negotiations assumed to expand reliable market access opportunities.

To achieve the objectives of the sector, formation of fair and competitive trade system that satisfy consumers, trading community and developmental investors will create secured access to sustainable market thereby increase benefits from generation of foreign exchange. Underlining the objective is the building of sector change army that deal with rent seeking attitude and inspection activities to maintain substandard products and services; the same way to protect national interest, health and safety of the community. Strong regulatory system will be established to strengthen the control and support for developmental investors in building their competitive capacity. Enhancing the awareness and capacity of stakeholders in the sector, trade community and consumers will be undertaken.

Finally, by creating integrated and harmonized organizational structure of the sector from Federal down to Woreda levels, efforts will be made to effectively implement the plan and achieve stated objectives and targets set.

The overall objectives of the trade sector are to scaling up implementation through continuously building the capacity of change army, establishing modernized fair and competition based trade system, creating efficient and effective marketing expansion linkages and increasing foreign exchange earnings.

The main targets of registration and licensing services by supporting with information technology are as follow. The plan target to increase new registration from 203,542 in 2014/15 to 506,476by2019/20; increasing registration renewals from 853,559 in 2014/15 to 1,986,596 by 2019/20; new licenses from 278,573 in 2014/15 to 693,177 by 2019/20; license renewals from 873,214 in 2014/15 to 2,490,645 by 2019/20 and registration from 87,470 in 2014/15 to 359,787 by 2019/20.

To protect the national interest are promoting health and safety of the community by strong inspection on substandard products and services. Inspections is carried out on factories that are required to produce standardized products and the number of inspection of factories is planned to increase from 216 in 2014/15 to 420 by 2019/20.Inspection on the performance of traders based on their license, internal and external pre-licensing is also planned to increase from 612 in 2014/5 to 2,490,645 by 2019/20. Through supervision on market, inspecting products that establish standards are considered and planned to increase the achievement target from 9 in 2014/15 to 30 by 2019/20.

Through inspection of import and export items, plan is set to increase quality control activities on imported items. Accordingly, quality control activities is planned to increase from 668,777 metric tons of imported items in 2014/15 to 1,176,731 metric ton by 2019/20. In a similar fashion, quality control activities are planned to increase on export items with target from 680,796 metric ton in 2014/15 to 1,208, 769 metric ton by 2019/20. The same way, inspection target is set on the adequacy of fuel carrying cars from 2,356 in 2014/15 to 4,810 by 2019/20.

2.3.1. Implementation Strategies

- Sustainable system and institutional capacity development program
- Reliable and modern development of information system program
- Establishing Trade Development Academy for sustainable capacity building program
- Harmonized national trade policy formulation and implementation program
- Trade registration and licensing service expansion program
- Enhancing the safety and quality control of products and services
- Transparent, competition based, economically significant and modern commodity exchange system development program
- Expanding opportunities by joining World Trade Organization and Regional Free Trade Areas
- Creating reliable market opportunities by effective export expansion activities

2.4. Benchmarking from Best Practice

Drivers of competitiveness and efficiency are benchmarks used as strategy of the investigation to identify and implement best practices. Parameters are developed from twelve pillars of the competitiveness and categorization from the exiting dataset. Starting from examining the COMESA members listed in Table 1 proceeding by sorting out of COMESA members that have better competitive rank than Ethiopia and at last examining of directly or indirectly competeveness deriving factors. Key comments that evolved at validation workshops are found to be important inputs to identify sources of competeveness from 12 pillars, though difficult to handle them simultaneously, due to cost and long-term policy elements within the 12 pillars. Exiting literature such as that of UNCTAD promotes innovation as a major driver of competitiveness and subsequently it has developed and summarized Global Innovation Index (GII) for some selected economies.

Table 2: Source of Benchmarking: The Competiveness and Global Innovation Indexes

Country	Score out of 7*	World Rank*	Rank with in COMESA*	Score(0–100)**GII	Rank**	Income**	Rank**	Efficiency Ratio**	Global Rank**
Switzerland				68.40	1	HI	1	0.96	1
Netherlands				63.32	2	HI	2	0.91	4
Sweden				63.08	3	HI	3	0.82	10
United Kingdom				60.13	4	HI	4	0.77	21
Singapore				59.83	5	HI	5	0.61	63
United States of America				59.81	6	HI	6	0.76	22
China				53.06	17	UM	1	0.92	3
Uganda				25.32	103	LI	4	0.45	108
Zimbabwe				23.15	113	LI		0.60	69
Benin				20.61	121	LI		0.35	123
Mauritius	4.52	45	1	31.31	75	UM		0.47	105
Namibia	3.99	84	2	28.03	93	UM		0.41	116
Kenya	3.98	96	3	31.07	78	LM		0.69	41
Egypt	3.90	115	4	27.16	95	LM	16	0.66	45
Seychelles	3.80	NA	5	NA	NA	NA	NA	NA	NA
Ethiopia	3.78	109	6	NA	NA	NA	NA	NA	NA

Source: The Global Economic Forum and Global Innovation index 2018

To make an exploration of benchmarking exercise, we leisurely made a tour through each of the column and the row in Table 2 to learn if there is any qualitative relation between innovation, competitiveness and efficiency. We learn that competiveness primarily arise from one of the 12 pillars namely innovation. Theoretically and empirically, innovation has been established. On the other side, UNCTAD and Global economic Forum have emphasized on the role of innovation as a driver of competiveness. Fom Table 2, Switzerland with high income (HI) has Global Innovation Index (GII) of 68.40 per cent while the efficiency ratio is 96 percent. In both parameters, Switzerland ranks first globally. Benin rank at low-income country and 121st in GII with 123rdon global efficiency ratio whereas nil Within COMESA, Mauritius stands first from competiveness point of view with 4.52 points out of 7, from GII point of view it stands 75th with GII score of 31.31. Mauritius has an efficiency ratio of 0.47 and stands 105th globally.

On the other hand, Kenya stands 3rd with COMESA from completeness point of view with 3.98 points out of 7 points, with GII score of 31.07 stands 78th globally. Form efficiency point of view, Kenya scored efficiency ratio of 69 per cent and stands 41st globally. Ethiopia stands 6thwithin COMESA from competiveness point of view while there does not exist GII and efficiency ratio data.

Even under such condition, it is possible to identify the position of Ethiopia using the parameters descried and supposed to drive competitiveness based on GII and efficiency ratio. Competiveness is positively associated to GII and efficiency ratio and once validation is established, it is quite convincing and possible to learn (benchmark) case for Ethiopia. One way is to look in to factors and experiences, which led Ethiopia to achieve competitiveness, innovation and efficiency. This should lie in the quality of the economic policy making process which is presented sequel.

2.4.1. Institutional Framework and Process of Trade Policy Making in Some COMESA Member Countries

Experiences of institutional framework and trade policymaking process of some countries found in a better competitive position than Ethiopia are referred. Subsequently, the cases of two countries (Kenya and Tanzania) taken for these investigations. The outcome of this investigation is expected to extract the experience of these countries, which would help Ethiopia to consider such experiences in its policy and strategy portfolio. It understood there is no one to one relationship between the experiences of the other countries and Ethiopia. It should also be noted that there is a resemblance in the economic setups between these countries and Ethiopia so there should be an association of the transmission mechanisms of institutional framework and competitiveness under almost similar economic environment.

2.4.1.1. The Case of Kenya

Kenya's Trade regime has shifted form an inward looking strategy, which emphasized restrictions in imports to that of an open trade policy which emphasizes free trade. Four phases categorize Kenya's Trade regime starting from 1963 to1992.

Trade Policy Formulation in Kenya

The different branches of the government that include, the legislature, the executive and the judiciary, share official trade policymaking of Kenya. The initial trade policymaking indicates the problem of identification and suggestion of policy options often involves inputs by various civic societies. These include individuals, communities, pressure groups, the business sector and NGOs that might have an interest in issues addressed by the policy. In the process of trade policy making, executives, legislature and the judiciary are expected to interact with one another, on the one hand, and with the various interest groups within the civic society on the other.

The national export strategy of Kenya was formulated by the government, private sectors and academia participation that focusing on prompting and diversifying the export items. The government has taken and implemented several policy initiatives to stimulate exports. The initiatives are export compensations schemes, export processing Zone (EPZs), manufacturing under bonds and duty drawback schemes. The government was triggered by the realization that Kenya does not have a trade export strategy and the need to activate export for it is an engine of economic growth and reverse the import substitution led growth strategy. The National export strategy identified a variety of national institutions engaged in trade support networking. These are:

I. Export promotion Agencies
    - Export promotion council (EPC)
    - Horticultures Crops Development Authority (HCDA)
    - Community Marketing Agencies such as Coffee Board and Tea Board

II. Quality standard and Compliance Agencies
    - Kenya Bureau of standards
    - Kenya Plant health and Inspectorate Services
    - Ministry of health

III. Trade facilitation Agencies
    - Customs & Excise
    - Kenya Ports Authority
    - Kenya Railways Corporation
    - Kenya Airports Authority

IV. Trade Finance Institutions
    - Commercial Banks
    - Development Finance Institutions such as Industrial Development Bank
    - African Trade Insurance Agency

V. Competence Development and Information Agencies
    - Kenya Institute of Business training
    - Kenya Institute of Public Policy Research
    - Kenya Association of Manufacturers
    - Kenya National Chamber of Commerce and Industry
    - Fresh Produce Exporters Association of Kenya
    - Kenya Flower Council
    - Horticultural Crops Development Authority
    - Associations of Fish Processors and Exporters of Kenya

Institutions and Stakeholders that shape Trade policy formulation in Kenya

Kenya's formal trade policy formulation arena is composed of the legislatures, executives, judiciary, government ministries, private sector, NGOs and bilateral and multilaterals as well as the regional and the international organizations. Within the central government, the main responsibility of the trade policy formulation lies on the Ministry of Trade and Industry, Finance, Planning, Agriculture and Regional Development. These Ministries form the Cabinet economic subcommittee that deals with diverse government policy issues including trade policy. In general, trade support institutions include intuitions that offer technical assistance on the quality standards of product (metrology, conformity and assessment) and packaging design along with commercial banks and other financial institutions that offer credits facilities and chambers of commerce and industry.

2.4.1.2. The Case of Tanzania

The Evolution of Trade policy in Tanzania

Policy making in Tanzania's internal and external trade has evolved and shaped by changes in the socioeconomic regime and political philosophy over the past five decades. The post-independence trade regime was a liberal one, reflecting the relationship inherited from the colonial era. The private sector has been playing the conventional role of economic agent and engine of growth. Foreign trade flows and raw materials rested on a continuously growing production of agricultural commodities and raw materials for export, largely in unprocessed form. The export import role was dominated by foreigners and Tanzanians of Asian origin; this in itself posed a political economy challenge. The formation of cooperatives (to handle crop marketing in selected area) was an attempt to redress this situation. In light of this background, the evolution of Tanzania's trade policy briefly presented as follows:

i. A period of tight control

By 1967 there was a need to address the legacy of colonial inequality and underdevelopment and majority of the people of Tanzania to have a stake in the major means for production. In terms of trade policy, it could be pointed out that imports trade was controlled following the logic of inward looking state led import substitution industrialization. Large-scale domestic and foreign trade was controlled through a policy of confinement (trade of key products was placed under a monopoly of state trading companies).

Eventually direct government intervention in all operational aspects and the common use of instruments such as administrative resource allocation, price controls, import quotas, rationing, permits to control the internal movement of goods and services became the primary instruments of the policy. One result was deepening economic crises in the early 1980s with shortages of goods becoming ever more acute.

ii. Move towards liberalization

The trade liberalizations movement of Tanzania focused on the following issues:

- Consolidating consensus to entrench the continuing policy reforms and facilitate trade development mainly by shifting from protected and controlled economy towards a competitive market economy
- Highlighting the central role and contribution of trade to the attainment of the primary goal of poverty reductions envisaged in development vision 2025
- Identifying measures for the development of the domestic market as a tool of inclusion and broad-based participation in the economic activities
- Aligning the national development agenda with regional and international trade obligations and maximizing the benefits of participation in regional and international trade arrangements
- Adopting appropriate framework of measures for interim safeguarding of domestic industry and economic activity threatened by liberalization including identification of sectors to be protected, the rationale and costs of protection and the maximum duration of protection.
- Addressing constrains on the supply sides that inhabit trade expansion and competitiveness of the economy, as it is a prerequisite for rapid economic growth and development.

The institutional framework for Tanzania's trade policy

The broader set-ups of intuitional framework for Tanzanian trade policy include the public sector; the private sector the civic society and development cooperation partners. The country's trade policy formulation process involves:

i. Consultation and coordination with different stakeholders

Formal and informal consultation among government intuitions, non-governmental and stakeholder's groups were conducted on national, regional and global issues. Consultations on higher-level issues were specifically work of National Business Council.

More specifically, the regional issues on which consultations focus are:

- Harmonization's of Tariff rates in East Africa
- Formulation and adoption of common external tariffs
- Formulation of an EAC Customs Union
- Harmonization of Policy laws in East Africa
- Harmonization of investment codes, thus promoting East Africa as a single investment destination
- Harmonization of incentive packages for east Africa investors

ii. Trade policy Formulation

The Tanzania's trade policy making evolves on four distinct stages: analysis and identification on constraints and opportunities; formulation of policy strategies and measures; actual implementation; and monitoring and evaluation on regular review. Participation in the regional trading arrangements is quite broad. For example, in the negotiation of the harmonization investment codes in East Africa, the member of the working group of experts drawn from:

- Attorney Generals' Chamber of Commerce
- Ministry of Finance
- Tanzanian Revenue Authority
- President's Office for Planning and Privatization
- Confederation of Tanzanian Industries
- Tanzania Chamber of Commerce Industry and Agriculture
- Ministry of Trade and Industry
- Tanzania Private Sector Foundation
- Tanzania Investment Promotion Agency

The planning commission, which coordinates investment matters in the country, leads Tanzania delegation at the working group meeting while the Ministry of Trade and Industry coordinates the implementation of trade policy.

III. Analysis of Primary and Secondary Sources

This section attempts to discuss different key components of competitiveness for a nation to benefit from participating in FTA such as COMESA. The information is obtained from published and unpublished materials, commissioned government documents and documents of global coverage focusing on Ethiopia vis-à-vis COMESA with the intent to draw best practices for Ethiopia.

3.1. Competitiveness Concepts and Comparative Analysis of Ethiopia vis-à-vis COMESA

Global Economic Forum (2017) defined "competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country". The level of productivity, in turn, sets the level of prosperity that can be reached by an economy. The Forum argued that the productivity level determines the rates of return obtained by investments in an economy, which are the fundamental drivers of growth rates. In other words, a more competitive economy is one that is likely to grow faster over time. Subsequently, the forum identified 12 pillars of and used to construct competitiveness index for countries.

First pillar: Institution

The legal and administrative frameworks in which individuals, firms and governments are interacting possibly determine the quality of public institutions and have a strong bearing on competitiveness and growth.

Second pillar: Infrastructure

Extensive and efficient infrastructure is a critical need for ensuring the effective functioning of the economy. Effective modes of transport including high-quality roads, railroads, ports and air transport—enable entrepreneurs to get their goods and services to market in a secure and timely manner and facilitate the movement of workers to the most suitable jobs."

Third pillar: Macroeconomic environment

The stability of the macroeconomic environment is important for business and, therefore, is significant for the overall competitiveness of a country

Fourth pillar: Health and primary education

A healthy workforce of a country is vital to competitiveness and productivity. Workers who are with health problem cannot perform to their potential and are less productive. Poor health leads to significant loss of costs to the business, as sick workers are often absent or operate at lower levels of efficiency.

Fifth pillar: Higher education and training

Better quality of higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products.

Sixth pillar: Goods market efficiency

Countries with efficient goods markets are well positioned to produce the right mix of products and services if these goods can be effectively traded. Healthy domestic and foreign market is important in driving market efficiency and business productivity; by ensuring that the most efficient firms and producing goods demanded by the Market efficiency also depends on demand conditions such as customer orientation and buyer sophistication.

Seventh pillar: Labor market efficiency

"The efficiency and flexibility of the labor market are critical for ensuring that workers are allocated to their most effective use in the economy and provided with incentives to give their best effort in their jobs. Labor markets must, therefore, have the flexibility to shift workers rapidly from one economic activity to another and at low cost, and to allow for wage fluctuations without much social disruption.

Eighth pillar: Financial market development

An efficient financial sector allocates the resources saved by a nation's population, as well as those entering the economy from abroad, to the entrepreneurial or investment projects with the highest expected rates of return rather than to the politically connected.

Ninth pillar: Technological readiness

The technological readiness pillar measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries, with specific emphasis on its capacity to fully leverage information and communication technologies (ICTs) in daily activities and production processes for increased efficiency and enabling innovation for competitiveness.

Tenth pillar: Market size

The size of the market affects productivity since large markets allow firms to exploit economies of scale. Traditionally, the markets available to firms have been constrained by national borders. In the era of globalization, international markets have become a substitute for domestic markets, especially for small countries. Thus exports can be thought of as a substitute for domestic demand in determining the size of the market for the firms of a country.

Eleventh pillar: Business sophistication

Business sophistication concerns two elements that are intricately linked: the quality of a country's overall business networks and the quality of individual firms' operations and strategies. These factors are especially important for countries at an advanced stage of development when, to a large extent, the more basic sources of productivity improvements have been exhausted. The quality of a country's business networks and supporting industries, as measured by the quantity and quality of local suppliers and the extent of their interaction, is important for a variety of reasons. When companies and suppliers from a particular sector are interconnected in geographically proximate groups called clusters, efficiency is heightened, greater opportunities for innovation in processes and products are created and barriers to entry for new firms are reduced.

Twelfth pillar: Innovation

The last pillar focuses on innovation. Innovation is particularly important for economies as they approach the frontiers of knowledge and the possibility of generating more value by merely integrating and adapting exogenous technologies tends to disappear. In these economies, firms must design and develop cutting-edge products and processes to maintain a competitive edge and move toward even higher value-added activities. This progression requires an environment that is conducive to innovative activity and supported by both the public and the private sectors. In particular, it means sufficient investment in research and development (R&D) especially by the private sector and the presence of high-quality scientific research institutions that generate the basic knowledge needed to build the new technologies. Extensive collaboration in research and technological developments between universities industry with the protection of intellectual property are important requirements.

Following these 12 pillars, vis-a-vis individual countries' competitiveness, the study has documented the following information.

Table 3: The competiveness index for selected countries

Country	Score out of 7	World Rank	Rank with in COMESA
Burundi	3.21	135	12
Dem. Rep. Congo	3.27	129	11
Egypt	3.90	115	4
Ethiopia	3.78	109	6
Kenya	3.98	96	3
Madagascar	3.4	128	9
Mauritius	4.52	45	1
Namibia	3.99	84	2
Seychelles	3.80	NA	5
Uganda	3.70	113	7
Zambia	3.52	118	8
Zimbabwe	3.32	126	10

Source: Authors' compilation from the Global Competitiveness Report 2017–2018

The Global Competitiveness Index 2017–2018 measures national competitiveness that defined as the set of institutions, policies and factors that determine the level of productivity. According to the 2017 World Economic Forum shown in table 3, which covers 137 economies, Ethiopia stands 109th out of 137 economies. The economy of Mauritius is the most competitive both within COMESA and globally. It stands first within COMESA with competitiveness index of 4.52 and with the rank of 45th out of 137 economies. However, these competiveness indicators are aggregate figures and say very few about the details which should be very interesting for business to make decision.

3.2. Stages of Development and the Weighted Index of Ethiopia vis-à-vis COMESA

Although all of the pillars described above will matter to a certain extent for all economies, it is clear that they affect different economies in different ways. In line with well-known economic theory of stages of development, the GCI assumes that, in the first stage, the economy is factor-driven and countries compete based on their factor endowments primarily unskilled labor and natural resources. Maintaining competitiveness at this stage of development hinges primarily on well-functioning public and private institutions (1st pillar), a well-developed infrastructure (2nd pillar), a stable macroeconomic environment (3rd pillar), and a healthy workforce that has received at least a basic education (4th pillar).

As a country becomes more competitive, productivity will increase and wages will rise with advancing development. Countries will then move into the efficiency-driven stage of development when they must begin to develop more-efficient production processes and increase product quality because wages have risen and they cannot increase prices. At this point, competitiveness is increasingly driven by higher education and training (5th pillar), efficient goods markets (6thpillar), well-functioning labor markets (7thpillar), developed financial markets (8thpillar), the ability to harness the benefits of existing technologies (9thpillar) and a large domestic or foreign market (10thpillar). Finally, as countries move into the innovation-driven stage, wages will have risen by so much that they are able to sustain those higher wages and the associated standard of living only if their businesses are able to compete using the most sophisticated production processes (11th pillar) and by innovating new ones (12th pillar), see Table 4 below.

Table 4: Sub index weights and income thresholds for stages of development

Income level	Stage of Development				
	Stage1: Factor driven	Transition from Stage 1 to Stage 2	Satge2: Efficiency Driven	Transition from Stage 2 to Stage 3	Stage 3: Innovation driven Economy
GDP per capita (US$) thresholds	<2,000	2,000–2,999	3,000–8,999	9,000–17,000	>17,000
Weight for basic requirements	60%	40–60%	40%	20–40%	20%
Weight for efficiency enhancers	35%	35–50%	50%	50%	50%
Weight for innovation and sophistication factors	5%	5–10%	10%	10–30%	30%

Source: World Economic Forum (2017).

Table 5: Location and Classification of COMESA members by each stage of development

Stage of Development				
Stage1:Factor driven	Transition from Stage 1 to Stage 2	Stage2: Efficiency Driven	Transition from Stage 2 to Stage 3	Stage 3: Innovation driven Economy
Burundi		Egypt	Mauritius	
Ethiopia		Swaziland	Seychelles	
Kenya				
Madagascar				
Tanzania				
Uganda				
Zambia				
Zimbabwe				

Source: World Economic Forum (2017).

Based on Table 5, we learn that Burundi, Ethiopia, Kenya, Madagascar, Tanzania, Uganda, Zambia and Zimbabwe are among the COMESA members in stage 1, factor driven. Egypt and Swaziland are in Stage 3, efficiency driven economies. Only Mauritius and Seychelles are in the process of Transition from Stage 2 to Stage 3. From that document, we have also learnt that none of the COMESA member countries reached stage 3 or innovation driven economy. In fact, none of the African countries has reached innovation driven economies. The forgoing analysis of Ethiopia, in the middle of the competitiveness rank, implicate that it would be unlikely to reap full benefit of the trading as presented in the textbook, characterization of joining regional trading blocs like COMESA FTA before economy of Ethiopia has potentially moved away from factor and transited to efficiency driven economy.

The study on Ethiopian competiveness: "A Study of the Competitiveness of Ethiopian Manufacturing Firms for Participation in the COMESA FTA" by the Ministry of Trade and Industry (2012) also revealed that there is some level of differences in competiveness across different manufacturing sectors. The study employed Total Factor Productivity score defined as the ratio of TFP of the same industry at time 't' divided by the ratio of the maximum value of a similar ratio observed in any one of the industrial groups of the sector at any particular time to arrive at indicators.

Based on this indicator tobacco, wearing apparel, basic chemicals, furniture and rubber industries have shown relatively higher scores in 2000 and 2005 whereas other industrial sectors were performing below the average score. With the exception of rubber, footwear, tannery and leather products and furniture industrial groups, the TFP scores declined in all other industrial groups in 2010 as compared to the above two years.

Accordingly, performance of the entire manufacturing sector was poor in 2010. In particular, those industrial groups that were performing above the average in 2000 and 2005 found as getting extremely low score. This does not, however, imply that there is a certain persistent downward or upward trend in the performance of industrial groups. Such unpredictably erratic performance of manufacturing industry is illustrated on TFP growth trends scores. Table 6 displays annual growth rates for three selected years (1999 - 2000, 2004 - 2005 and 2009 - 2010) and simple and weighted average growth rates for three different time intervals (2000 - 2005, 2005 - 2010 and 2000 - 2010)".

Table 6: Total Factor Productivity Scores

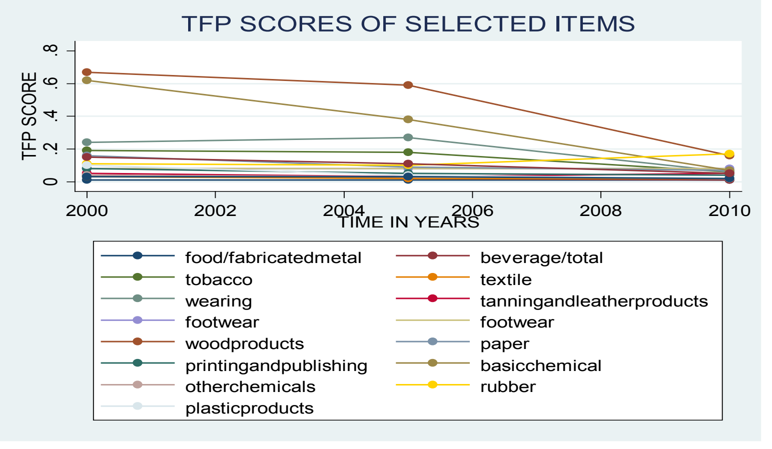
Industrial Group	Year			
	2000	2005	2010	Total
Food	0.01	0.011	0.007	0.01
Beverage	0.039	0.02	0.011	0.03
Tobacco	0.194	0.183	0.056	0.145
Textile	0.03	0.022	0.021	0.03
Wearing	0.244	0.273	0.06	0.2
Tanning and Leather Products	0.049	0.027	0.046	0.038
Footwear	0.082	0.084	0.081	0.088
Wood Products	0.67	0.59	0.159	0.46
Paper	0.16	0.09	0.067	0.108
Printing and Publishing	0.081	0.048	0.04	0.059
Basic Chemical	0.621	0.382	0.066	0.367
Other Chemicals	0.044	0.03	0.016	0.034
Rubber	0.112	0.095	0.173	0.118
Plastic Products	0.096	0.044	0.019	0.059
Non-metallic Mineral Products	0.047	0.013	0.04	0.035
Basic Metal	0.083	0.025	0.027	0.043
Fabricated Metal	0.025	0.029	0.017	0.029
Furniture Products	0.132	0.06	0.063	0.175
Total	0.151	0.108	0.054	0.113

Source: Ministry of Trade and Industry (2012), Final reportd-48

In spite of relatively high level of TFP scores as compared to other industrial groups, the rubber industrial sector has shown an average annual decline in both the two five years periods that is over the entire ten years period. Although relatively performed well in the first five years period, an extremely low performance of wood industry in the second five years period led an average negative growth rate of TFP over the whole period. Other industries have shown an average positive annual TFP growth rates during the last ten years. Positive average growth rate figures do not necessarily imply that the majority of industrial groups are moving along a sustainable growth trajectory. Practically, all industrial groups reported negative TFP growth rates within the last ten years albeit the frequency differs one from the other. Plastic products industrial group has the lowest number of years with negative TFP growth rates followed by textile, wearing apparel, footwear, printing and publishing and basic chemicals industries"(Ministry of Trade and Industry, 2012).

The following figure shows the evolution of the Total Factor Productivity scores for selected commodities in the manufacturing sector.

Figure 2: Evolution of productivity score of selected industrial commodities



From figure 2, we can learn that, during the year from 2010, overall TFP score has been declining, indicating that Ethiopia is weak in the evolution of productivity score. The implication is that Ethiopia's competitiveness in the COMESA trading system is under challenge. The following paragraph further illustrates the degree of impact on Ethiopia.

According to the World Economic Forum (2017), the average competitiveness of sub-Saharan countries has not significantly changed over the past decade while little was gained between 2011 and 2015, whereas over the past two years it was partially lost again. Only four countries (Ethiopia, Senegal, Tanzania, and Uganda) have improved their performance for five consecutive years since 2010. A decline in the overall competitiveness of African countries is reflected in subdued growth rates i.e., only 1.4 percent in 2016 and a modest 2.6 percent in 2017.Gross capital formation is now lower than at any other point in the last 10 years.

Continued deterioration in the macroeconomic environment is a reason to fail in competitiveness. Average inflation grew with double digits in 2016 and maintains above 10 percent. Public finances affected by the previous sluggish global growth of commodity prices. Consequently, African public revenues fell from an average of 26.5 percent of GDP in 2006 to 17 percent in 2016, and many countries are liable to deficits. In just two years, public debt has risen from an average of 31.5 to 42.5 percent of GDP and 22 of the 31 countries assessed by the GCI this year report higher debt than last year.

These challenges affected the banking sector as financial market efficiency continuing to decline. In addition, after four years of improvement, performance in the institutions pillar has worsened in 2018 particularly from South Africa, Lesotho and Zambia—while elections in Rwanda, Kenya, Liberia and the Democratic Republic of Congo have increased volatility in 2017 that cause uncertainty in the African business environment. These negative consequences partly compensated by improvements in infrastructure, health, technological readiness and business sophistication although Africa remains below the global average.

There is significant variation across countries. Mauritius is again the most competitive country at 45th in the overall GCI with its main rivals falling back. South Africa drops 14 places to 61stand Rwanda drops seven places to 58th. The most improved African countries year-on-year are Madagascar 121stup by seven, Gambia 117th up by six, Kenya 91st up by five and Senegal 106th up by six ranks either to an improved macroeconomic environment as Madagascar and Senegal or to the efficiency of goods, labor and financial markets as Gambia and to a lesser extent Kenya.

In general, restoring macroeconomic stability and institutional trust are short-term priorities to reignite competitiveness and growth in Africa. Continued investment in infrastructure, human capital, and technological adoption will be needed to reduce productivity gaps.

On this, the forum summarized that as the challenges varied in facing economies around the globe, agendas in improving competitiveness need to be redefined. Public-private collaboration should explore regional factors: multinational corporations can engage with several jurisdictions, while regional organizations as that of trade blocs are to be capable of coordinate countries. The Global Competitiveness Index can help to guide and structure these long-term dialogues, leading to operative and applicable agendas at national, sub national and regional levels.

3.3. The Implication of Regional Integration on Tariff Revenue

Paul et al (2007) argued that tariffs are an important source of government revenue in many Sub-Saharan African countries. However, tariffs are also a critical element of the incentive framework that determines the allocation of resources within a country and can thus have an important impact on the trade ability of country. In general, middle and high-income countries tend to apply lower average tariffs and are less reliant on tariffs as a source of revenue.

One of the development challenges that face low-income countries is to move into greater trade openness to improve efficiency and competitiveness whilst securing revenues from other broader based taxes and from more effective implementation. Careful impact analysis of revenue on tariff reforms is essential to policy makers as for low-income countries seek to improve the structure of incentives on export and competitiveness strategy. The most pressing trade policy issues that currently facing on COMESA members are those related to a COMESA-wide Customs Union (CU) and Economic Partnership Agreement (EPA) with the European Union (EU).

Previous case studies of revenue impacts on African Customs Unions and EPA have tried to estimate the revenue implications in COMESA members from trade policy changes and adopting a common external tariff and implementing preferential trade liberalization with the EU under EPA. Some key studies with similar work on other regional groups summarized as follows. The results on the impact of EPA suggest that substantial impact variations over countries and significant loss of revenue in a number of cases.

Paul Brenton et al (2007) have summarized their study as follows: They adopt a simple partial equilibrium approach that applied in most other studies and made some greater sophistication steps. They undertake the revenue simulations at the highest level of detail or at tariff line level. A key factor influencing the EPA revenue impact is the share of the tariff revenue derived from EU imports. The data shows the importance of imports from EU for considerable variation across countries.

Imports from the EU contribute 16 per cent of the tariff revenues for Ethiopia, is higher at 29 per cent for Madagascar, 17 per cent for Zambia and only 6% for Malawi. The data indicate that tariff exemptions are important in all four countries. In Ethiopia, with the application of statutory rates 72% of the revenue was collected. This collection rate was 77 per cent for Madagascar while in Zambia and Malawi it is 66 per cent and 75 per cent respectively. In Ethiopia, Madagascar and Malawi, the collection rate is lower than for that of the total imports. This means that exemptions are on EU imports.

Table 4 below presents the results of a simulation exercise, quantitatively assess, the importance of tariff exemptions in influencing the impact analysis of policy changes and to provide a revenue impact of EPA alone. The model assumes no domestic substitute for imports.

They assume that all tariffs against the EU should be removed, but practically there are a range of exceptions that reduce the revenue impact and thus, the estimates will provide an upper bound on actual impacts.

Part 1A in table 7 shows predicted changes in tariff revenues shares of the EU in imports for Ethiopia, Zambia, Madagascar and Malawi as 17, 18, 30 percent respectively. The next column of the table shows the predicted loss of tariff revenue if statutory rates applied as typically used in previous studies. The predicted losses are substantially higher for all countries. The final column is addressing the revenue loss from EPA due to removal of all tariff exemptions. The tariff revenue loss is much lower and revenues gained in Zambia and Malawi for extensive tariff exemptions.

Paul Brentonet al (2007) estimate shows change in total tax revenues including the revenues from levying of VAT and excise taxes on imports the total revenues of Ethiopia fall by 3.4 percent that is half of the loss predicted with the statutory tariffs. The revenue loss for Madagascar Zambia and Malawi is estimated at 4.1, 1.7 and 0.8 percent. If all tariff exemptions were to be removed the loss of revenues shrinks appreciably to 0.8% of total tax revenues for Ethiopia and 1.7 percent for Madagascar while an increase of 2.3 percent for Zambia and 3.3 percent for Malawi.

Thus, a careful review of the magnitude and benefits of tariff exemptions would be useful to complement the reforms analysis of trade policy and compare with other mechanisms to offset the revenue losses from tariff reductions.

Table7: Extracted from the authors' (Paul et al, 2007: in World Bank) summary

1 A Change in Tariff Revenue for EPA (Elimination of all tariffs on imports from EU)			
Country	Calculated based on applied tariffs (%)	calculated based on statutory tariffs	Based on applied tariffs with removal of all tariff exemptions (%)
Ethiopia	-17.2	-32.6	-4.6
Madagascar	-29.9	-43.9%	-12.1
Malawi	-6.5	-8.5%	+26.2
Zambia	-17.7	-23.2%	+24.6
1 B Change in Total Tax Revenue for an EPA (elimination of all tariffs on imports from EU)			
	Calculated based on applied tariffs (%)	Calculated based on statutory tariffs (%)	Based on applied tariffs with removal of all tariff exemptions (%)
Ethiopia	-3.4		

	-6.4	-0.8	
Madagascar	-4.1	-5.6	-1.7
Malawi	-0.8	-1.1	+3.3
Zambia	-1.7	-2.3	+2.3
Part 2. Impacts on total tax revenues of COMESA FTA, COMESA CU and EPA			
	FTA		
	Customs Union	Total effect of FTA, CU and EPA	
Ethiopia	-1.0		
	-3.6	-7.0	
Madagascar	-0.8	+4.3	-1.4
Malawi	-0.8	+1.2	-1.8
Zambia	-0.2	-2.1	-3.1

The above table describes the impact on total tax revenues and a sequential approach to implementing a customs union and completing the COMESA free trade agreement then move to EPA with the EU. In the absence of clearly defined external tariff of COMESA, assuming external tariff will be similar to East African Customs Union (EACU) deflated by ratio of collection efficiency for each country. Estimates suggest that implementation of a COMESA FTA systems, removing all tariffs against all COMESA members, would lead to about 1 percent revenues loss in Ethiopia, Madagascar and Malawi but only 0.2 percent in Zambia. Once the free trade area established, applying a common external tariff at rates similar to that of the EACU would lead to additional losses of revenues (relative to the pre-FTA base year) to about 3.6 percent in Ethiopia and 2.1 percent in Zambia. In Madagascar (+4.3 per cent) and Malawi (+1.2 per cent), revenues would increase on average, since current tariff rates are lower than those in the EACU CET are. The revenue losses under an EPA, after the COMESA customs union, are smaller for Ethiopia and Zambia but larger for Madagascar and Malawi. Overall, implementation of these three trade policy options leads to revenue losses of 7 percent in Ethiopia, 1.4 percent in Madagascar, 1.8 percent in Malawi and 3.1% per cent Zambia (see Paul Brenton et al ,2007 and literatures cited therein).

4. Opportunities and Challenges for Ethiopia's Accession to COMESA FTA

In sequel, existing opportunities and challenges those are concerned with Ethiopian accession to the COMESA FTA are discussed. From the domestic front, opportunities arise from the investment climate, current reform process, and the revitalization of the current Ethiopian accession prices of the WTO in the forthcoming two years after suspending for six years are another opportunity and the nationally ongoing countrywide reform process while the African Continental Free Trade Agreement (ACFTA) and regional cooperation for infrastructure projects such as the regional Standard Gauge Rails (SGR) are the different forms the continent-wide opportunities.

4.1. Opportunities

4.1.1. African Continental Free Trade Agreement (ACFTA) and Regional Cooperation for Infrastructure Project

Acceding to UNCTAD (2016) several programmes and institutional creation proliferated, the level and rate of implementation of trade integration programmes of many regional economic communities (RECs) faltered. Weak implementation at the RECs level meant that efforts towards building up the continental community also wavered. With a view to reviving and launching the continental integration project, the OAU Abuja Treaty Establishing the African Economic Community was adopted in June 1991. It articulated the formation of a continental free trade area (CFTA) as a stepping stone toward the realization of the African Economic Community. Momentum towards implementing this objective gathered speed with the formation of the African Union (AU) in 2002, replacing the OAU. AU member States paid greater attention to continental integration. In fact, Article 3 in the AU's Constitutive Act, establishes that the third objective of the AU is to "accelerate the political and socio-economic integration of the continent"(UNCTAD, 2016, P. 1)

Subsequently, the AU decided to concentrate the process of fostering continental economic integration through trade integration. At the 2012 AU Summit, Heads of State and Government adopted a Decision (Assembly/AU/Dec.394 (XVIII)) on the Establishment of a Continental Free Trade Area (CFTA) by the indicative date of 2017 and endorsed the Action Plan on Boosting Intra-Africa Trade (BIAT) which identifies seven areas of cooperation namely trade policy, trade facilitation, productive capacity, trade related infrastructure, trade finance, trade information, and factor market integration. Then in June 2015, at the twenty-fifth Summit of the African Union, held in South Africa, African Heads of State and Government agreed to launch negotiations on the creation of the CFTA by 2017 through negotiations on the liberalization of trade in goods and services. This initiative presents major opportunities and challenges to boost intra-African trade. In order to multiply the benefits of the CFTA and promote developmental regionalism in Africa, a comprehensive vision of trade and development needs to be in place. Expanded markets for African goods and services, unobstructed factor movements and the reallocation of resources should promote economic diversification, structural transformation, technological development and the enhancement of human capital.

The CFTA is designed in such a way that it would remove the barriers and reducing costs to intra-African trade and in improving productivity and competitiveness. It must provide for governments to involve non-state actors, especially private sector, civil society and academia, in the discussions on the intent, content and design of CFTA so that the resulting agreement could create opportunities for businesses to exploit and bring about benefits to ordinary citizen.

One of the key issues in relation to the achievement of African continental integration was the relative priority that should be given to integration of the continent as a stand-along strategy, a top-down process, or through the integration of the different African regional economic communities, a bottom up process. The Lagos Plan of Action and the Abuja Treaty embraced a bottom-up process with the formation of RECs which would then become the stepping stones for African continental integration. Deep integration is envisaged in terms of a single common market, and economic and monetary union.

Another important concept of free trade agreements, included with GATT Article XXIV, is that tariffs have to be eliminated in respect only of goods originating in the customs territories making up the FTAs. Thus rules of origin (ROO) for products traded have to be defined for the FTA to enable the easy identification of goods. ROOs are like a passport for a product to enter an FTA and circulate without being imposed a duty. Negotiating them, however, can be and has been quite challenging on a technical level. It is important to ensure that the technical construction of the ROOs respect the policy decisions of member States regarding the FTA. The provisions in an FTA on goods for ROO have several main functions. They define:

- The class of goods that will be considered as originating in the other party or parties of the FTA and therefore eligible for preferential tariff treatment. These are goods that are wholly obtained, wholly produced or substantially transformed;
- The method to be used for assessing whether a product has undergone substantial transformation in the FTA region and thus can be classified as originating;
- The conditions under which goods will not be considered for preferential tariff treatment, usually because they have undergone insufficient processing or insufficient operations in the exporting economy, or have merely been trans-shipped from another economy;
- The method needed for claiming preferential status, i.e., through the presentation of a certificate of origin, through self-certification or through other agreed means; and
- The options available to the importing economy to withdraw preferences if it suspects, or has established, that goods entering its territory were falsely claimed to have originated within the FTA. Among these options is a suspension or denial of preferential tariff treatment.

Associated challenges are that ROO tend to be highly complex because of attempts to make them precise to deter non-FTA originating products to exploit the preferences granted, and to eliminate, as much as possible, room for dispute between the parties. However, in practice, the more conditions a good has to satisfy to qualify for preferential market access, the less likely it is that it will indeed qualify for preferential treatment. It would require robust institutional and entrepreneurial capacities to monitor and implement such ROOs. Similarly, if the complexity of the rules of origin is such that disputes over its origin become a normal occurrence, importers and exporters will also be less likely to seek to benefit from them. When this happens, the FTA as a whole loses some of its effectiveness. This is particularly critical in the case of manufactured goods, most of which do include components/raw materials from third-party sources.

According to UNECA (2013) has undertaken a review of the ROOs applied in a number of African RTAs and found that: COMESA applies a 40 per cent local content in its material-content rule, 35 per cent in its value-added rule; with a 25 per cent exception for "goods of particular economic importance" to trading members. The accumulation of ROO is also part of the COMESA regime, promoting industrial integration.

To summarize the preceding paragraph, we understand that there is a sober commitment from the African Nations to progress the formation of the African Free Trade Area. This is more evidenced by the argument that the approach is bottom up. .

To support this argument, African Unions (AUs) commissioner for trade and Industry Albert Muchanga has said that Africa's Industrialization and Trade "the paradigm is shifting as the continent is focused on the development of regional Value chains. That will supply a larger market space under the African Continental Free Trade Area in addition to using the regional value chains to more competitively link Africa to global value chains"(the Sunday Nov 25/2018 1042th publication of the Capital magazine).

The magazine also disclosed that the COMESA and the European Union have signed a Euro 48.3 million trade facilitation program aimed at deepening regional integration, improving inclusive regional economic growth and enhancing competiveness of the African largest trading block. The deals are supposed to pave way for implementation of the planned activities under the COMESA tripartite region as well as the targeted corridors and border areas in the trade regions which will be achieved through reduction of non-tariff barriers across the borders, implementation of the COMESA digital free trade agreements, the WTO facilitation agreements, improvements of the coordinated management, the liberalizations of trade in services and movement of persons. This will also ensure trade policy liberalization and infrastructure improvements, accompanied by improved boarder managements and logistics are supported to reduce freight costs, increase competitiveness and fully exploit the economic potential of COMESA region. There is also an intuitive by Germany by backing the UNCTAD to work to deliver goals of African trade deals. That means the regional customs unions such as COMESA FTA are supposed to be strengthened towards the goal of CFTA to become reality. This is an imperative that Ethiopia accedes to COMESA FTA.

4.1.2. The Attitudinal Changes Of The Business Communities

In the validation workshop of this study, it is revealed that there is overwhelmingly converging attitude from the business community towards joining COMESA FTA. In fact, the participants from the business community had a very strong opinion that Ethiopia becomes a signatory as soon as possible. The rationale for their arguments includes:

1. The world is on the competitive age and hence Ethiopia cannot afford to stay out of the global trading system including the COMESA FTA until a time comes up when the economy attain competitiveness. The business communities are of the very strong opinion for joining COMESA FTA and subsequently become competitive from learning by doing. We have learnt from the business community which revealed a very strong change in mindset of the business community against a business as usual tradition, saying, "We should enter and face the challenge".
2. The rationale for the strong proposal from the business community for Ethiopia to COMESA FTA emanated from the current overall economic and social reform in Ethiopia. The argument is that there is a positive and overall political economy reform in Ethiopia which includes trade policy formulation currently being undertaken by the Ministry of trade and industry, a move to partially or fully privative some of the major Public Enterprises including Ethiopian Airlines, Ethiopian Electric Power and Ethio-telecom company. The expected outcome of these liberalizations moves is to enhance efficiency in resource allocation and subsequently to improve effacing and competiveness of the Ethiopian economy.
3. Ethiopia has launched an ambitious industrial parks construction which is supposed to increase exports. COMESA FTA market would expand markets for such products.
4. As of Dec 31, 2016, COMESA is the largest of the 8 Regional Economic Communities recognized with population of 492 million people and a GDP value of USD 682. Average growth in the region was 5% per cent 2016, while COMESA total exports amounted to 71 billion USD. Intra COMESA trade remains structurally low relative to other regions, stagnating at around 11% of total COMESA exports (2016) and with the majority of traded products being with low added value. Over 90% of the Member States trade with other parts of the world. This is also due to the lack of industrial diversification, the existence of Non-Tariff Barriers (NTBs), supply side constraints and cumbersome border measures (see https://eeas.europa.eu/.../common-market-eastern-and-southern-africa-comesa). Ethiopian population constitutes about 20 per cent of the total COMESA population while the economic growth rate of Ethiopia has been twice of the COMESA average. These suggest that there is a huge untapped potential within COMESA.
5. The government of Prime Minster Dr Abiy has come up a new ministry called Ministry of innovation. This is for the first time in Ethiopian history that Ministry of innovation was officially established. This ministry

is supposed to encourage innovation in the all aspects if the economy and subsequently play a huge positive efficiency and competitiveness enhancing role.

4.2. Challenges to Ethiopia's Accession of COMESA FTA

The following are some of the major ones requiring attention:

- There is an argument advanced by the Pan African Chamber of Commerce (PPACI) that trade in Africa shall be free but inclusive. However, they also argue that without being against CFTA, they question that can Africa's economies sustain a free trade Agenda in the absence of grass-root support of Pan-Africanism. Could open boarders and market integration even accentuate present day fractures and inequalities on the African continent?
- Entering FTAs requires as a precondition easing restrictions on capital flows across country's borders. There exits established argument among economists in that liberalization and free flow of goods and services across countries over time which brings about economic growth and improves welfare of the parties trading. The financial sector in general and current account in particular is not liberalized and more importantly there is a strict capital control in Ethiopia. Under this scenario, internationalization of the production and distribution is going to be challenged. Such challenge is a huge hindrance to become a signatory of the COMESA FTA.
- There is an urgent demand from the business community for the Ethiopian government to reform the trade facilitation including the effect of the credit system, utility and avoiding power cut that is currently costing the private manufacturers 35,000 to 40,000 for one minute of electric power interruption and subsequently hampering productivity, reducing output and subsequently affecting the competitiveness of the export sector.
- The challenge of Digitizing Trade and Development
- Poor Trade in services and business sophistication

V. Analysis Based on Qualitative Survey

To complement the findings of the desk review, the study team has undertaken key informant interview with governmental stakeholders and in-depth interview with domestic manufacturing enterprises operating in leather, textile, meat and dairy industry sectors. Key informants were selected from Ministry of Trade and Industry, Ministry of Finance and Economic Cooperation, Textile Industry Development Institute, Leather Industry Development Institute and Meat and Dairy Industry Development Institute. The discussion with both governmental and private actors focused on the main challenges in the business environment that affect the competitiveness of the country's manufacturing sector; the efficiency of the existing trade facilitation services within various ministries and agencies; the main gaps in Ethiopian investment rules, regulations and incentives for the manufacturing sector vis-à-vis COMESA trading regime, the potential pros and cons of participating in COMESA FTA on Ethiopia's industrialists and overall business environment; and their opinion Ethiopia becoming a signatory of COMESA FTA.

From the discussion with Ministry of Trade and Industry it was learnt that Ethiopia has no domestic and international trade policies and the sector is governed by the strategy set in the second growth and transformation plan. It is also argued that the Ministry of Trade and Industry is in the process of developing domestic and international trade policy and it is not yet finalized. Because of this fact, the study team could not make critical evaluation of the country's trade policies vis-à-vis the COMESA trading regime. Currently Ministry of Trade and Industry has no role in the facilitation of the accession process of COMESA FTA. It is the Ministry of Finance and Economic Cooperation (MoFEC) that is responsible to handle the COMESA regional economic integration activities.

Both governmental stakeholders and private actors operating in the manufacturing sector believe that the existing investment incentives for both domestic and foreign manufacturing firms are generous and can enhance the competitiveness of the sector. It is also reported that there are no considerable institutional and legal constraints that could impend the country's accession to COMESA FTA. It is due to infant industry argument that the government is pending the accession of the COMESA FTA up until now.

The study has also tried to assess the awareness of governmental stakeholders and the private actors about COMESA trading regime. Particularly, the industry support institutes like the Leather, Textile, Meat and Dairy Industry Development have very limited knowledge of the COMESA trading regime or treaty. On the other hand, some of the manufacturing firms visited by the study team have a trade relation with COMESA member countries and highly aware of the potential pros and cons of acceding the COMESA FTA. Private actors in the leather sector believe that Ethiopia would benefit by exporting finished leather and leather product to COMESA member countries. Currently, they still have a comparative advantage in trading with COMESA member countries even through paying tariff.

5.1. Main Challenges that Affect Competitiveness of the Manufacturing Sector

Access to finance: In-depth interview participants of the manufacturing sector identified lack of finance as a severe constraint to the competitiveness of the sector. It has become increasingly difficult to access credit for investment and working capital requirements, a factor that has adversely affected the competitiveness of the local manufacturing sector. Most local manufacturing firms do not have the financial capacity for investment and therefore perform poorly and lag behind. Absence of specialized banks for industry development and lack of access to suppliers' credit has also contributed to the financing problem.

Shortage and quality of raw materials: Private actors operating in leather, textile and meat and dairy industry sectors identified shortage and quality of raw materials as the major problems facing the local manufacturing firms. For instance, leather and textiles industries face severe shortage of local raw materials, which has adversely affected their performance. As a result to many firms the cost of production affects their capacity utilization, which is already very low. Poor quality raw materials have also been identified as the major problem affecting firms.

High cost of production: Since many manufacturing firms depend on imported inputs, depreciation of the local currency against USD has contributed to the rising cost of production. Cost associated with working premises, utilities and transportation have also escalated, which together affect cost of production and productivity of the local manufacturing firms.

Inefficiency of trade facilitation services: The existing trade facilitation service is inefficient and severely affected the competitiveness of the manufacturing enterprises operating in the country. More specifically the customs procedure is tedious and the multimodal transport service is time consuming.

Shortage and management of foreign exchange: in-depth interview participants identified shortage and management of foreign exchange as crucial problems, especially for those enterprises importing raw material and intermediate goods used in their manufacturing processes. The acute shortage in foreign exchange imposes a serious constraint on business operations in both the private and public sectors.

High labor turn-over: Particularly in leather and textile sectors new firms hunt skill workers from existing enterprises as a result firms are discouraged to invest on training and staff capacity building program.

Power interruptions: have become a binding constraint on business operations. While supply has improved in the recent past, power outages are still forcing industrial operations and businesses to cease running, leading to increased unplanned downtime to the detriment and increased loss in production and damage to machinery and equipment. Along with the government's determination to resolve the power crisis in the medium to long-term, it is important that planned power allocation takes precedence over the current sudden interruptions that are causing havoc on industrial and business operations.

VI. Potential Pros and Cons of Joining COMESA FTA

- One of the advantages of accessing COMESA FTA is that consumers can access goods and services with relatively lower price as tariff would be removed among COMESA FTA member countries.
- The quality requirement of COMESA member countries is relatively easy to achieve for domestic manufacturing enterprises compared to the quality standards of the western countries. Thus domestic firms can easily supply their products to COMESA markets.
- Stakeholders also argued that if Ethiopia joined the COMESA FTA, it would help the country to attract more foreign direct investment (FDI) to the country as FDI can also supply their products to the wider markets of COMESA with zero tariffs.
- The proximity of COMESA member countries to Ethiopia can also be considered as one of the advantages of joining COMESA FTA.
- It is also argued that acceding COMESA FTA prior to joining WTO would be a good learning environment for the country's manufacturing industries as well as for the support institution.
- On the other hand, acceding COMESA FTA might have negative implication for infant industry sectors and lead to deindustrialization and unemployment. The country may also encounter revenue loss due to removal of applied tariffs on imported items.

VII. Conclusion and Recommendation

This section summarizes the major findings of the study: First, it presents major findings and subsequently, policy recommendation.

7.1. Conclusions

First, the survey of the exiting theoretical and empirical literature show that the evolved theories from the classics to the frontiers still argued that design and formulation of particular trade policies should be on case by case and country by country basis. The existing theory has been confined mainly to a study of the effects of customs unions on welfare rather than, for example, on the level of economic activity, the balance of payments or the rate of inflation. These welfare gains and losses, which are the subject of the theory, may arise from a number of different sources: (1) the specialization of production according to comparative advantage which is the basis of the classical case for the gains from trade; (2) economies of scale; (3) changes in the terms of trade; (4) forced changes in efficiency due to increased foreign competition; and (5) a change in the rate of economic growth. The theory of customs unions has been almost completely confined to an investigation of (1) above, with some slight attention to (2) and (3), (5) not being dealt with at all, while (4) is ruled out of traditional theory by the assumption (often contradicted by the facts) that production is carried out by processes which are technically efficient". Then major implication of this theory for Ethiopia vis-a-vis COMESA is that Ethiopia should clearly identify the static and dynamic gains from FTA. Ethiopian policy should disaggregate the best entry point and fine tune the domestic and international trade strategies towards COMESA if the country is to reap the benefit.

Second, the evolution of COMESA member courtiers to FTA is not yet completed. Different countries are in different stage of espousing the Custom's Union while only EAC is reached a common market.

Third, the competiveness of COMESA member countries significantly varies both globally and within COMESA. According to the 2017 report of the World Economic Forum, which covers 137 economies, the Global Competitiveness Index 2017–2018 measures, national competitiveness defined as the set of institutions, policies and factors that determine the level of productivity. Ethiopia stands 109 thout of 137 economies while it stands exactly half way between. Burundi with global competitiveness index of 3.1 has the global rank of 135 out of 137 economies. The economy of Mauritius is the most competitive both within COMESA and globally standing first within COMESA with competitiveness index of 4.52 and with the rank of 45th out of 137 economies. However, these competiveness indicators are aggregate figures and say very few about the details which should be very interesting for business to make decision.

Fourth, it is also found that Burundi, Ethiopia, Kenya, Madagascar, Tanzania, Uganda, Zambia and Zimbabwe are among the COMESA members in stage 1, factor driven. Egypt and Swaziland are in Stage 3, efficiency driven economies. Only Mauritius and Seychelles are in the process of Transition from Stage 2 to Stage 3. None of the COMESA member countries have reached stage 3: which is classified as innovation driven. In fact, no African country has reached innovation driven economies. The implication of the forgoing analysis is that, for Ethiopia, which is in the middle of the competitiveness rank, it would be unlikely to reap the full benefit of the trading before its economy has potentially moved away from factor driven and transited to efficiency driven or even a higher level as that of Egypt and Swaziland or even Mauritius and Seychelles.

Fifth, the existing empirical evidences on the overall welfare impacts of COMESA FTA membership reveal mixed results. For example, the tariff revenue for an EPA (Elimination of all tariffs on imports from EU) affect Ethiopia negatively by an extent worse than some selected countries. In line to this, the survey also showed that taking the case of the revenue impacts of Customs Unions and an EPA in Africa a number of studies have tried to estimate the implications for revenues in COMESA member states that would result from trade policy changes in the form of adopting a common external tariff and of implementing preferential trade liberalization with the EU under an EPA. The results for the impact of an EPA suggest substantial variation in the impact across countries and that in a number of cases the loss of revenue could be very significant.

Sixth, perspectives from the validation workshop of the business community inclined that Ethiopia should join COMESA FTA as soon as possible, learn by the hardest way and intolerable to wait till the Ethiopian economy is reasonably competitive. Even this has been proved by this study where Ethiopia is not far below the average in competition from among the COMESA member countries indicating that there is a huge potential for improvement.

Seventh, from the government side, the Ministry of Trade and Industry has revealed that trade policy formulation is under way and accession to WTO is imperative. This indicates that the same will be true for COMESA FTA.

Eighth, the opportunities from UNCTAD are that it is funding the trade facilitation and trade capacity building in way by digitizing the COMESA trading system, so Ethiopia should make use of these opportunities to make the trading system efficient.

Ninth, African Continental Free Trade Agreement (ACFTA) and regional cooperation for infrastructure project as opportunities is a huge implication that Ethiopia cannot isolate itself from the rest of the world.

Tenth, the Ethiopian productive scores in the selected manufacturing sector have been declining up to 2010, even if there is infrequent reversal recently. There also existed significant variations in TFP score across commodities over time. This implies the demand for sector specific trade strategies and policies.

7.2. Policy Recommendations

The policy implications are drawn from outcomes of the findings from the desk review and surveys from stakeholders. Subsequently, the following are the major preliminary policy recommendations:

1. Ethiopia need to be signatory of the COMESA FTA since the cooperation has crucial importance in economic, welfare and promoting non-economic benefits, such as peace and stability for the country.
2. Considering the current status of the Ethiopian economy is an important one, especially in the export and the manufacturing sectors. Accordingly, the proposed time of Ethiopia to become a signatory of COMESA FTA will be 2022. However, this timeline can be waved as Africa integration through Africa Free Continental Free Trade Area (AfCFTA) has now been realized. AfCFTA is the largest free trade bloc since the creation of the World Trade Organization in 1994. At present, 54 leaders signed AfCFTA's original treaty, and more 25 countries including Ethiopia ratified the treaty by their respective parliaments on July 8, 2019 of the inaugural meeting that was held in Niger. Africa integrations through the instrumentality of AfCFTA is expected to have a special influence on the world market through balancing trade between Africa and the rest of the world.

   In any case, Ethiopia's participation in COMESA-FTA or AfCFTA, requires actively working on the following policy initiatives.

- Adopt comprehensive domestic and international trade policies and legal framework for importing and exporting sectors. This includes providing companies with clarity on the tariffs to pay and the technical requirements to follow. Such measures are important to ensure transparency and a level playing field, which is a key element in boosting competition and productivity in the Ethiopian economy.
- Improving the local manufacturing sector

- Establish a commission of experts from the government, universities and the business community to come up with all possible recommendations to improve productivity in the country.
- Speed up institutional reforms in relevant agencies such as customs authority.
- Strengthen the infrastructure of quality assessment and align Ethiopia's product standards, procedures, and certification and technical requirements with the regulations in COMESA.
- Adopt comprehensive legal framework for importing and exporting sectors.
- Given weak tax base and less developed fiscal system, it is crucial that accession to the FTA should be accompanied with fiscal reforms to enlarge the domestic tax base.

3. According to David Luke,[45] coordinator of the African Policy Trade Center (ATPC) deliberated at the International Conference on Trade and Finance organized by AACCSA that one of the historical patterns of African Trade for the last 60 years of independence being the exporter of commodities to the rest of the world contrary to export of growing higher share of the value added products among African countries themselves. By removing the tariff and others barriers within the region; AfCFTA is, therefore, said to be important in encouraging this good trade among neighboring countries. Ethiopia is expected to benefit a lot from this trade agreement. A simulation exercise that made by the African Trade center also confirms greater advantage with the opening up of these trades, trickling more to industries followed by agriculture.

Africa integrations through the instrumentality of AfCFTA is expected to have a special influence on the world market through balancing trade between Africa and the rest of the world.

A better overview of the AfCFTA is, therefore, also important to have a significant impact in terms of trading and doing business within the continent. In this regard, like the preparation to become signatory in COMESA, Ethiopia government and other responsible agent should critically look the following points about ACFTA; Rules of Origin, Policy Harmonization, Governance and Non-Tariff Barriers.

Addressing the above problems, however, requires more collaboration among Africans and implementation of a well-researched capacity building programs.

[45] David Luke, Coordinator of the African Trade Policy Centre (ATPC) , speech made Africa International Conference on Trade and Finance Conference, organized by AACCSA Aprile, 22-26,2019. Au

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Addis Ababa Chamber of Commerce and Sectoral Associations
Tel: +251 11 551 8055
Fax: +251 11 551 1479
Email: info@addischamber.com
www.addischamber.com