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National Logistics Strategy

Acknowledgment

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I. Introduction

Ethiopia has demonstrated strong progress in economic growth and commendable social developments in the past decade. Stable macroeconomic conditions and policy management have helped to register strong Gross Domestic Product (GDP) growth averaged 11 percent in the past nine years. Ethiopia is now towards the end of implementing its medium term transformative agenda- the Growth and Transformation Plan (GTP)¹ that foresees to double the country's GDP over the medium term, meet the MDGs by 2015 and become a middle income country by 2025. Among the major priorities of the government include building on economic resilience through galvanizing the private sector to play a more complementary role in stirring the transformation process.

The government has well recognized the importance of infrastructure, and logistics services in achieving the envisioned improvement in the external sector growth. Towards addressing bottlenecks specific to trade logistics, with request from Government, UNDP has commissioned a study on the development of National Logistics Strategy with a goal of designing a comprehensive logistics strategy for the country with due emphasis on planning and implementing an efficient transportation and storage of goods, including services, and related information from the point of origin to the point of consumption for an effective trading system and improvement in the nation's trade balance.

A critical success factor for the strategy are adequate and reliable communication systems to advance in transport and logistics. Electronic exchange of data will be essential. Hence, Ethiopia should acquire internationally compatible systems to enable frequent updating of information and specific services as well as connectivity worldwide. The ongoing infrastructure development should be continued in terms of expansion in road networks, passenger and cargo air services as well as fast, reliable, and cost-effective railway operations. The system should be backed by vibrant, private logistics providers with good logistics knowledge. The technological and legal requirements should be put in place to facilitate doing business. Equally important is strengthening internal capacity of government institutions with leading role in trade logistics serves for the initiative to bear fruitful results.

The Ethiopian National Logistics Strategy summarized herein is based on the findings of the diagnostic study which have specific interventions developed for each critical aspect of the optimal system that has been identified. The boarder aim of the strategy is to serve as an instrument for resulting in an efficient and reliable logistics system.

¹GTP runs from 2010/11-2014/15.

2. Situation analysis

Ethiopia was dubbed the 12th fastest growing country in the world (WB: 2014). Nevertheless, the low ranking in some indicators in Doing Business and recent trade slump call the Government of Ethiopia (GOE) to undertake this study with a goal of designing a comprehensive logistics strategy for the country.

This task requires a vision of what Ethiopia would be like as a middle income country and what requirements it would have. The vision for 2025 assumes that Ethiopia will have established a further strategic partnership with Djibouti for the port, transport corridor and customs operations. It will also maintain several other strategic corridors to protect the country from a sudden economic or military closure and to open up interregional trade. Contract farming will spread as a means of providing inputs to farmers and post-harvest collection systems in rural areas. Trade in agricultural products will increase through better quality control, table ready preparations and producing/distributing for niche markets. Light manufacture using local and imported inputs will increase. Urban areas will gain population. A second mega city will have emerged and several large market cities will serve the agricultural areas.

The proportion of imported consumer goods distributed through retail chains will grow. Warehouses and networks for collection and distribution, based on cross-docking rather than storage, will expand. There will be increasing shares of inter-regional trade with other African countries, the Middle East and Asia. Overseas shipments will be either bulk or containerized cargoes consolidated/deconsolidated near the source or destination. Emphasis will be placed on end to end systems based on terminal development, including CFSs, bonded warehouses, distribution centers, etc. The railway will operate as another end to end system with terminal complexes designed to turn around trains quickly while supporting logistics services, warehousing, value-added production, road distribution networks and other services in rapidly growing logistics hubs. Ethiopian airlines will continue to benefit from its strategic location on the cross-roads between Africa, the Middle East, Asia and Europe. It will expand its horticulture operations to incorporate several regional cargo terminals.

Exchange of trade related data and financial transactions will be done electronically taking advantage of internet and other sources of mobile data services offering low cost, nationwide, wideband services. The backbone network will be extended using fiber-optic cable. Basic services will offer bandwidth of at least 20 MB. The logistics sector will switch from freight forwarding to third party logistics providers (3PLs) of warehousing, consolidation, order management, value-adding processing, warranty work and product recycling. The 3PLs will provide a full range of warehousing services including bonded storage, cold storage and automated warehouses. Much of the value they provide will be management of information and transactions. Training and self-regulation will be provided by industry associations.

Payments for logistics and regulatory services as well as for the duties and taxes associated with foreign trade will be paid through electronic fund transfers while electronic signatures will be used to complete the related transactions. A growing proportion of trade through internet based B2C and B2B transactions. This will be facilitated through increased availability of foreign exchange and expansion in the networks of correspondent banks used in cross-border transactions. The location of branches in the rural market towns, combined with mobile banking will support the commercialization of agriculture and the contractual relationships between farmers and processors.

3. Critical success factors

A variety of critical success factors emerge from the vision:

1. Adequate, reliable communication systems will be essential to most advances in transport and logistics envisioned. The network must be planned now with overcapacity allowing for future advances.
2. Software is readily available for a wide variety of logistics services. Ethiopia should acquire internationally compatible systems to enable frequent updating of systems and specific services as well as connectivity worldwide without the need to develop special interfaces to connect.
3. Electronic exchange of data and electronic money transfers will be essential. The technological and legal requirements should be put into place to facilitate doing business.
4. Ethiopia has invested a great deal in creating the road network that will support economic development and ensuring that Ethiopia has good connections to each of the neighboring states. ERA has also begun a program of rural road network expansion. The latter will be critical to further development of contract farming in rural areas and out grower schemes.
5. Government can encourage the development of storage, distribution and collection centers strategically placed through making land available to private developers.
6. The railway is under construction. It will need to operate an end to end service with efficient terminals at the Port of Djibouti and the inland depots. These should be developed as PPPs in which services are provided by the private sector.
7. Ethiopian Airlines should provide effective air cargo services for regional cities as well so that they can become additional logistics hubs strengthening regional economies.
8. For the logistics service providers to meet the needs of the next 10 years the training activities already underway need to be expanded. Opportunities for Ethiopians to work in international environments and encouragement of joint venture in Ethiopia to provide technology transfer will be critical. Logistics will become a much larger source of employment in the future.

4. International trade corridors

As a landlocked country, maintaining high performing trade corridors is critical to Ethiopia's trade competitiveness. Protections provided by such legal instruments as the African Maritime Transport Charter of 2010 are essential in protecting the right to use ports and land corridors in other countries, including multimodal transit systems. In keeping with this Charter Ethiopia has signed Port Utilization Agreements with Djibouti and Sudan. In addition to guaranteeing right of access, these agreements stipulate operating procedures and sets performance targets. Ethiopian shippers can choose among 4 alternative ports.

Djibouti Corridor:

Presently, 95% of Ethiopia's traffic uses the Port of Djibouti. Between 2008 and 2012, Ethiopian traffic doubled to 791,363 TEUs. The Port Authority of Djibouti has currently embarked on port expansion through a series of specialized terminals now planned or under construction. The two countries have also made a major investment in a new, standard gauge railway between the port and Addis Ababa. When the railway is completed in 2016, it will transform the transport and logistics system of the country and further strengthen the mutual dependence of the two countries.

The inland terminal will generate a logistics park to handle transfer of goods between the train and road transporters. Later regional rail lines will connect regional centers to Addis Ababa and thereafter to the port. A bilateral customs agreement seeks to reduce time and cost in releasing cargo from the port and in the transit across Djibouti.

Port Sudan Corridor:

The closest port to Northern Ethiopia is Port Sudan. It handles primarily exports such as sesame, which are grown and processed in northern cities, such as Gondar. Goods are transhipped at Gedaref in Sudan and carried by Sudanese trucks to the Port.

Addis Ababa – Nairobi – Mombasa Corridor:

Mombasa is the closest port for Southern Ethiopia. A new container terminal and other construction is underway to add capacity to Mombasa. Once the road construction in Kenya is complete, Ethiopian shippers will readily access the East African Community for trade as well as access to another major port with new terminal coming on line. It will also host Ethiopia's first One Stop Border Post.

Berbera Corridor:

This port is about the same distance as Djibouti, which makes it attractive to some shippers. The road on the Ethiopian side is in reasonable condition. The port is shallow and requires ships use "own gear".

5. Critical Logistics Factors Identified from the Supply Chain Analysis

Extensive analyses were carried out on six leading exports to determine the opportunities for expanding production, markets and adding value to the exports. Significant opportunities were identified. The analyses were used to identify bottlenecks in the supply chains, constraints faced by companies in being internationally competitive and potential remedies. The conclusions have informed the analysis of infrastructure and logistics operations and will give the preparation of a blueprint for improvements.

6. Transactions

The Ethiopian Commodity Exchange (ECX) is a critical component in the supply chains for wheat, maize, sesame, coffee, and haricot (pea) beans. The ECX has achieved a number of important innovations. These include:

- Reliability and transparency in the transaction between wholesalers and exporters
- Better access to information to guide farmers in their transactions with wholesalers
- A network of well managed warehouses for the storage of commodities in locations that are accessible to wholesalers
- An improved testing and certification system to enhance the value of Ethiopian coffee exports

The ECX also faces the following challenges:

- Determining and disseminating price indexes that reflect market clearing prices
- Introducing forward markets that allow producers to time their sales according to market demand
- Simplifying supply chain networks in order to further improve the results to farmers
- Strengthening and broadening the channels by which producers can trade commodities that can be differentiated by source or quality of processing
- Improving direct access to foreign buyers through Internet business-to-business (B2B) marketplaces and other mechanisms
- Enhancing traceability of commodities traded through the exchange
- Outsourcing warehousing and testing activities without sacrificing quality

7. Banking Sector and Services

Foreign banks are still prohibited from operating in Ethiopia,. Commercial banks are authorized to engage in foreign exchange transactions associated with imports and exports. The commercial banks implement the foreign exchange and other regulatory controls on behalf of the National Bank of Ethiopia (NBE), the Ministries of Trade and Agriculture, and other government organizations, such as the Quality and Standards Authority and Dry Port Authority.

Ethiopian commercial banks render the following services for foreign trade:

- Approval of exchange control permits, including import and export permits, and payments for services (Invisible payments)
- Trade-payment services, including letter of credit, cash against documents (CAD), advance payment, and consignment basis payment
- Trade financing, including pre-shipment and post-shipment finance for exporters, and for import and export bills

All imports, exports and outgoing foreign payments require a foreign exchange permit. The commercial banks are licensed to issue these permits, except for coffee. Private banks are required to manage their foreign exchange transactions through offshore accounts. The National Bank of Ethiopia monitors the foreign exchange holdings of these banks as a mechanism for controlling reserves.

While banks generally apply a first-come-first-served policy for allocating foreign exchange, they may also reserve some of their allocation for special customers (e.g., those having large deposits or a larger volume of foreign exchange). For this group of customers, the time to secure foreign exchange will be less than a month.

Current regulations require that only 10 percent foreign exchange earnings from exports can be retained in a foreign exchange account and the remainder must be converted to Birr at the official exchange rate in 10 to 28 days. During this period, however, the earnings can be used to fund import transactions.

Ethiopia's system of trade finance constrains the growth of exports and the efficiency of distribution of imported goods. For exports, few financial instruments are available to assist exporters in managing their cash flow from the time an order is received until the time payment is received. On the other hand, in highly competitive markets, exporters are limited in the terms of payment they can offer to their buyers relative to the offerings of their competitors. For imports, the principal constraint is uncertainty regarding the availability of foreign exchange. Since securing foreign exchange is the initial activity in the export supply chain, this uncertainty is amplified throughout the supply chain, resulting in excess levels of inventory, frequent stock outages, and an inability to construct distribution networks that serve other than the major cities. These difficulties, combined with the restrictions on the method of shipping, have encouraged the use of Djibouti and Dubai as intermediaries to reduce these constraints.

Other challenges include:

- Continuing dominance of government banks
- Inefficient bank procedures, including a requirement for obtaining approvals from a bank's head office and the inability to offer international banking services outside the territory where NBE has offices (Addis Ababa)
- Need for expansion and availability of modern telecommunication technology without which modern banking products cannot be introduced
- Lack of automation and linkage among all banks
- Need for a strong clearing system database

8. Road

The road sector is under the responsibility of Ethiopia Roads Authority. The primary road network is quite extensive, well maintained and connects all the major populations in Ethiopia. ERA is also making a significant effort to expand the rural network through their Universal Rural Road Access Program (URRAP). A new expressway with three lanes in each direction, connecting Addis Ababa to Adama, was recently opened and is expected to improve the access to the city. The new road is tolled and it is still too soon to determine if its toll is attractive and will divert a significant proportion of traffic from the old road.

The truck industry is regulated by the Transport Authority. The truck fleet in Ethiopia is old, inadequate by modern standards (most are general purpose vehicles), slow to load/unload, and expensive to operate. This is similar to most countries in the region. There are multiple reasons for this situation. Some has to do with the delays, unreliability and inefficiency of the transport sector. This has caused traders to hold significant inventory, reducing their exposure and reliance on the cargo transport companies and reducing their incentive to pay high fees (in their view) charged by professionally run companies, selecting the lowest cost options. On the other hand, the low truck productivity caused by significant delays experienced by the trucks and depressed rates, makes it very hard from transport companies to be profitable, or invest in newer trucks which may not recoup their cost. Our estimate of current truck utilization places Ethiopia at half the utilization in South Africa (50,000 km/yr versus 120,000-140,000 km/yr). Finally, current regulation allows these old trucks to operate on the corridor, carrying the critical trade flows on which the country depends so much. The main licensing requirement is average age of the company fleet, allowing 57 percent to be older than 10 years.

The number of trucks required to service the Addis Ababa-Djibouti Corridor depends directly on their average turnaround time. Currently, each truck is able to serve 2.5 trips per month (see Tables 7-16 and 7-17). At that rate, there is a need of over 14,000 trucks in the corridor. If the turnaround time was reduced and trucks were able to do 6 trips per month, then only 6,000 trucks would be needed (the 6 trips would be equivalent to 125,000 km/year which is the average utilization in South Africa). This simplified exercise demonstrates that it is critical to reduce the delays experienced in order to make the trucking industry more efficient and able to reduce the cost of truck transport.

9. Rail

The new standard gauge railway between Addis Ababa and Djibouti, currently under construction and scheduled for completion before the end of 2016, will fundamentally change the profile of the corridor and Ethiopian transport sector. As envisioned, it will capture all the rail-friendly cargo and then be in a position to compete effectively for the containerized cargo destined to Addis Ababa and places where a multimodal service is cost effective. The construction of the trunk line, procurement of locomotives and rolling stock seemed to be well understood and underway.

There are however, areas in the rail development program which needs to be refined further: intermodal connections, creation of a regulator and defining characteristics of the rail operator. For the railway to succeed, it must provide convenient and cost-effective connections for the shippers. Therefore, intermodal connectivity is of outmost importance. During our last visit the interconnections with the Djibouti port had not been specifically developed nor the characteristics of the inland stations where the rail will connect with the road transport service. The team has suggested a concept addressing this connection in Section 7 of this report (page 189). From the point of view of its operations, it is still unknown who will operate the railways: a public or private agency, a single operator or one per country, and whether the operator will also maintain the track. From the regulatory point of view, it is not defined who will regulate the operation and maintenance of the railway, under which ministry the regulator will operate, or if it will be an economic regulator only.

10. Djibouti Port

The Djibouti Ports and Free Zones Authority (APZF) is the governing authority of all ports and free zones in Djibouti. The Port of Djibouti, defined as Port Autonome International De Djibouti, or PAID, (“English”), is owned and operated by APZF. The Doraleh Container Terminal (DCT) in Doraleh is a 30 year concession under which DPW developed the new terminal.

PAID plans to close the City of Djibouti site and move all port operations to new terminals to be developed in Doraleh. Construction of the new terminals in Doraleh has started. In 2012, APZF signed an agreement with China Merchants Holding International (CMHI) to form a private company, Port de Djibouti SA (PDSA), in which China Merchants holds 23.5 percent ownership. PDSA owns and operates all the existing and future holdings of APZF, including future developments in Doraleh. CMHI is a global port operator, although much smaller than DPW, with headquarters in Hong Kong and operations in Nigeria and Togo.

The Dry Bulk terminal is operated under a 30 year concession to STDV (Société Djiboutienne du Terminal Vraquier) for the exclusive right to handle all dry bulk cargoes in the Old Port (but not in Doraleh). The terminal consists of two berths, 13 and 14, and two silos of 30,000 ton (grain) and 40,000 ton (fertilizer). The discharge process uses suction and a crane to feed bagging equipment with a discharge rate of 3,000 tons/day. The bags are immediately loaded into trucks for delivery into different locations in Ethiopia. The bagging process together with concentration of ships creates congestion at the terminal with the resulting in long waiting times for ships and high demurrages charges. Together with high costs due to the inefficient process, the immediate bagging and shipment of bags in Ethiopia ties up a significant number of trucks (around 1,600-2,000 trucks if two vessels are offloading simultaneously, see description of challenges in the grain supply chain on section 5).

11. Ethiopian Intermodal Dry Port in Djibouti (IMDP)

This concept proposal offers a unique solution to a unique situation whereby almost the entire international traffic of Ethiopia is handled through the Port of Djibouti, taking of the new rail service. A similar facility, albeit with different purpose, is the London Gateway Rail Terminal. The proposed IMDP concept addresses a perceived gap in the planning of the rail as we review the supply chain of the Ethiopian trade. The IMDP is a combination of two facilities:

- Near-port Intermodal Yard where the loading and unloading of the block freight trains between Djibouti and Ethiopia is performed; and
- Near-port Dry Port, where the cargo and containers are stored away from the quayside without interfering with port operations, where space at the quayside is severely restricted. In modern container terminals, container storage is located between the quayside and the rail terminal, i.e., the rail yard is placed behind the container yard. In the case of Doraleh, it is not possible to provide rail access to the container terminal, but it will be located in the closest place possible.

Initially, the concept would apply to container traffic but can quickly be expanded to serve break-bulk and bulk as additional facilities are incorporated and in the future even truck bound Ethiopian cargo, making it the Ethiopian international freight terminal.

The economics of rail operation (high fixed costs) dictate that in order to be cost effective, a very high degree of asset utilization is necessary in order to reduce the fixed cost component per unit of cargo. So, there is a need to provide the facilities to enable the rail to operate unit trains between Djibouti and Addis Ababa that are loaded and offloaded in a matter of hours.

The agreement to construct the Ethio-Djibouti railway presupposes a long term alliance of interests between Ethiopia and Djibouti. This needs to be formalized through the development of the IMDP, allowing the IMDP to be an Ethiopian asset in Djibouti and giving them the certainty of controlling their trade all the way to the port in exchange for investing in the development of the IMDP and designating the Addis Ababa-Djibouti as their primary trade corridor. After all, the Ethiopian cargo fees pay for most of the operating costs of the port. Finally, the IMDP could be suitable for development as wholly private sector investment, or as a PPP project jointly with the Ethiopian and Djibouti authorities.

In the past, double handling has been mentioned as a critical flaw of the concept. However, double-handling is unavoidable in modern ship-to-rail transfer operations for containers; in fact, this is the way all container terminals worldwide involved in such transfers operate. The operation is so efficient that it minimizes the cost of the double handling. Direct ship-to-rail transfer, whereby railcars are placed alongside the ship is very difficult in the traditional system of short blocks; it is technically impossible in the modern system especially for containers in specialized terminals based on gantry Ship-to-Shore (STS) cranes. Switching a long or even a short train of railcars onto the dock will block any other operations on the dock. Likewise, it will require constant positioning of rail cars, which will slow ship-handling productivity; also it will allow working only with one STS. There is no container terminal in the world in which direct ship-to-rail transfer is performed today.

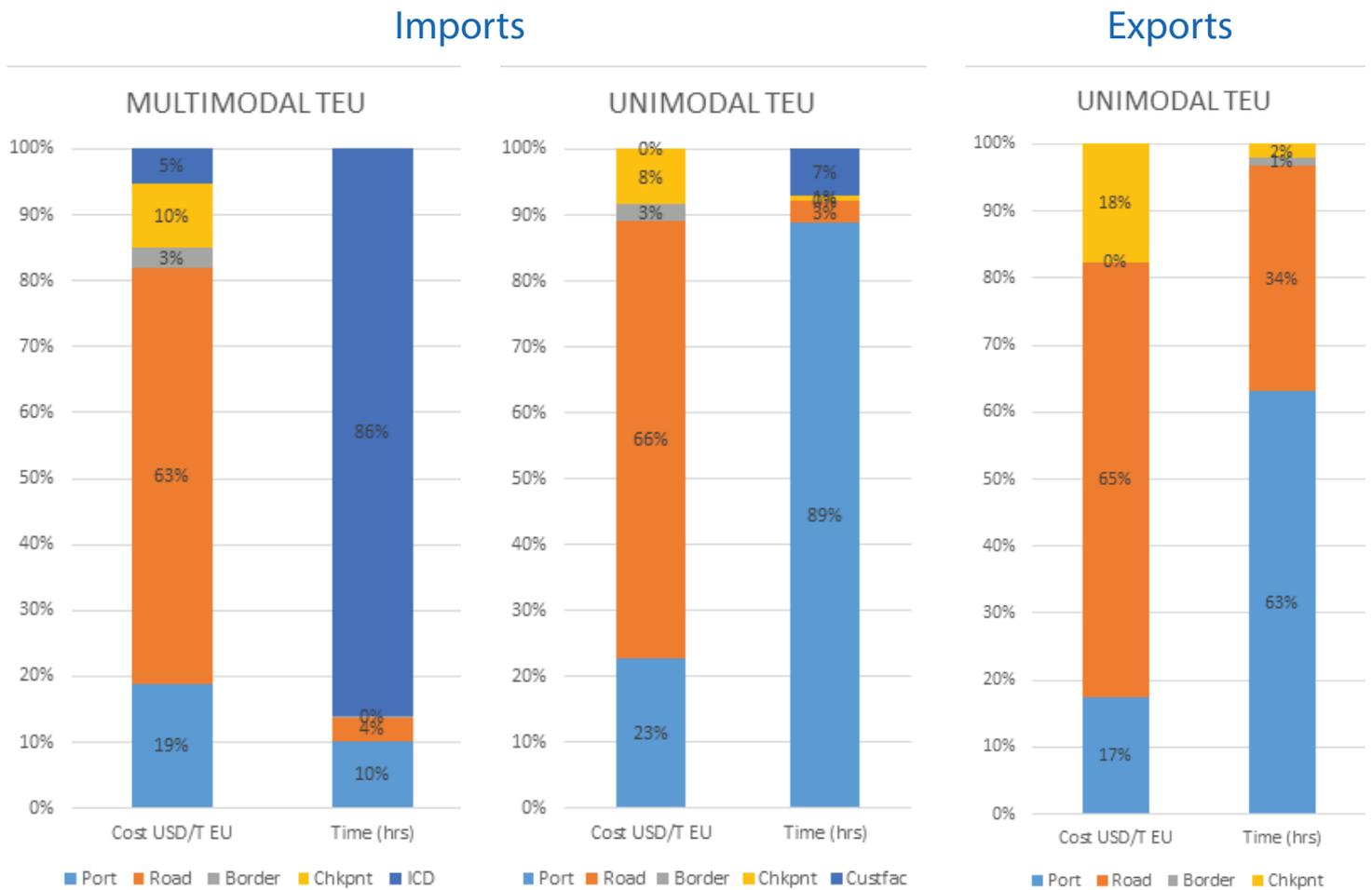
12. Corridor Performance

The team performed an efficiency assessment of the main corridor connecting Addis Ababa with the port of Djibouti. The general conclusion of the assessment is that Unimodal is around 18 percent more expensive than Multimodal. The clearance costs tend to be lower at Modjo and road transport tariffs for Multimodal cargo are around 20 percent lower than those offered to Unimodal cargo. In terms of time, the Unimodal method is the slower option and this is the result of the lengthy clearance processes undertaken within the Djibouti Port. For exports, the unimodal process is the only one available. In exports, road transport is also the most significant component of the total cost with 65% and the port of Djibouti represents 63% of the time. The total cost of exports is a third of the imports cost and it takes a tenth of what an import takes. The major reason is because both port and road transport are less than half for exports due to less congestion, regulatory controls and inefficiencies.

13. Air Cargo

Ethiopian Airlines is currently supporting international refrigerated export of flowers, vegetables and meat with twice a day flights to the flower market in Amsterdam (via Liege in Belgium). The Bole International Airport has a recently built, advanced flower air cargo terminal that has sufficient capacity to efficiently handle the cargo. The general air cargo terminal suffers from delays in the removal of goods, which causes congestion and low productivity in the terminal. Causes include companies that import goods before securing hard currency, have insufficient cash when approval is received, have missing documents or intentionally store goods due to the low storage fees for the air cargo terminal. Statistics show that about 2/3 of users intend to release their cargo in an average of 1 week, however, 1/3 are not prepared to collect their cargo quickly and some many intend to use the terminal for storage. This is a problem that urgently needs to be addressed.

Figure ES 1 Corridor Cost and Time for Containerized Cargo—Imports (Multimodal and Unimodal) and Exports



14. Logistics Services

Ethiopia has three types of freight-forwarding service providers namely a) Forwarding and shipping agency service providers, b) Forwarding service providers and c) Customs cleaning agents. Foreign participation in the sector is not permitted under the investment law. **Forwarding and shipping agency service providers.** The state-owned Ethiopian Shipping and Logistics Services Enterprise (ESLSE) provides freight forwarding and clearing, shipping, as well as trucking and stevedoring services. ESLSE provides Multi-modal and Uni-modal transport operations. About 8% of these services are provided by the private sector. **Forwarding service** providers represent 17% of the service providers and the majority lacks strong financial bases and faces some problems in management and organization. **Customs clearing agents** consists of informal operators and represent about 75% of the services providers and focus on individual consignments in which they provide cheaper services based on personal contacts. The majority lacks strong financial backing, management and organization.

15. Multimodal and Unimodal

The multimodal system was designed by ESLSE to address the long dwell times at the port of Djibouti and high demurrage costs incurred from the delays (in hard U.S. dollars currency). The concept was to use a through bill of lading so that containers were moved rapidly through the port of Djibouti to a dry port in Ethiopia where clearance would be conducted. Once the clearance process is completed, the Association of Djiboutian Transitaires (ATD) assigns trucks waiting on a dedicated parking lot by the Doraleh container terminal. This process was not very transparent or efficient and the Multi-modal office of ESLSE took over the truck assignment process.

Given the lack of a cargo assignment system, most trucking companies prefer to wait in Djibouti for cargo. This prevents the possibility of contracting round trips which would eliminate some of the empty back-haul trips. The transport rates are fixed and based only on the distance traveled without regard to topography, road condition or the possibility of finding return cargo which affect the costs and profit of the associated trip for the trucking companies. There is no system designed to rationalize the handling of the empty containers at the dry ports, making it difficult for exporters to find an empty container from their shipping line and therefore returning all the containers empty at a higher cost.

In the unimodal system, Ethiopian documentation is completed and duties collected while the goods are at the port. The goods travel in transit to the destination for final clearance and final release. The unimodal system generally handles bulk, palletized cargo in boxes, breakbulk, project cargo, and containers. Some shippers use the unimodal system because it delivers directly to the destination. The ESLSE unimodal system also handles exports of coffee, sesame, pulses, textiles, spices, and processed foods.

16. Dry port Operations: Modjo and Kality

The containers with imported cargo to Addis Ababa are inspected by customs and other agencies at Modjo Dry port if traveling under the multimodal system (72% of total multimodal imports) and at Kality Dry port if traveling under the unimodal system (70% of total unimodal imports).

Modjo is the major bottleneck in the supply chains serving imports of containerized cargo. It introduces long delays, significant uncertainties and unnecessary costs due to the confluence of:

- Underinvestment in facilities and equipment
- Poor operational procedures and control
- Insufficient yard management systems
- Cumbersome customs procedures and
- Failure to relocate abandoned and long term boxes

ESLSE has already tackled some of these issues but it remains to be seen if those activities produce the desired results. The major cause of delays is the presence of two types of users at the Dry Port. Those whose interest is in having their cargo released as soon as possible and those (traders) who want to store their cargo cheaply at the dry port while they search for customers. The average dwell time of 44 days masks the fact that some are cleared in 3 to 5 days, while others are held for over 140 days (and perhaps should be considered abandoned at that time). These long held containers take up space at the container yard, increase the number of containers per stack, and increase the number of moves to get to a container. A Modjo capacity model was prepared to estimate the impact of delays on the dry port's capacity (see Section 8).

17. Regulatory Enforcement

The Ethiopian Revenue and Customs Authority (ERCA) is implementing a variety of tools recommended by the World Customs Organization (WCO) to make it more efficient. These include risk management, an AEO program, a new valuation system, electronic seals and tracking devices, scanners and so forth. It is critical that they are instituted well and that unnecessary redundancy of controls is eliminated. For example, ERCA is developing a risk management program that seeks to do risk profiles based not only on customs experience with the company, but drawn on experiences throughout ERCA, which is a very positive step. Nevertheless at this point, while elaborate monitoring systems are being constructed, most cargo is still going through physical examination. While customs is starting an AEO program, identified AEO companies are still queuing with other trucks, rather than being fast tracked through a lane bypassing the inspection area. The AEO right to use a secure transit lane and minimal inspections is controlled by periodic verifications and submission to a post-clearance audit. Good practice in customs agencies is establishing compliance programs in which compliant companies are given certain benefits for their compliance and the customs agency is able to focus on those companies that have a record of non-compliance.

The need for more reliable connectivity is clearly demonstrated in customs. There is an agreement between Ethiopian and Djiboutian customs for a special regime that will facilitate the movement of cargo at the Port, in transit on the Ethio-Djibouti Corridor and at the border posts. Yet much of it is not being implemented because the connectivity necessary for implementation is not in place.

In addition to the improvements being sought in customs, it is essential that all border control agencies improve their clearances. It will not help for Customs to improve its time, if agriculture or veterinary services delay cargo. Addressing the inefficiency in coordination among agencies, is called Cooperative Border Management (CBM) or IBM. It will be a critical component of future improvements.

The study also highlights the requirements for business and transport licenses as modified recently. A one stop shop for inputs should be designed.

18. Transportation and Transportation Logistics Policy

There is no stated transportation or transportation logistics policy document as such, either for the sector as a whole or for the individual sectors. However, there are written indications of policy with regard to these topics and to each mode of transport. These are found in the various proclamations relating to the different modes of transportation and the regulatory authorities mandated with their oversight. Each such proclamation contains a preamble, which generally sets out the reasons for its enactment and a provision setting out the stated objectives of the legislation. The preamble and stated objectives are, at the least, indications of the government policies leading to the enactment of these pieces of legislation and will be discussed below as part of the discussion on applicable law and policy relating to the applicable institutions and modes of transport.

The Ministry of Transport is also preparing a draft transportation policy. The draft policy proposes to consolidate transport institutions and four existing and proposed regulatory agencies but there is no specific rail regulator, and one is needed.

The Maritime Sector Administration Proclamation 549/2007 established the Maritime Affairs Authority as separate public authority having its own juridical personality. The draft policy states that with regard to maritime and multimodal transport, MAA should, among others:

- Implement the ongoing restructuring of the Ethiopian Shipping and Logistics Enterprise
- Promote efficient, reliable and internationally competitive multimodal transport
- Ensure cost-effective and efficient transit and logistics operations
- Attain full compliance with international maritime safety and security standards
- Ensure safety and security of corridors and sea transport services
- Encourage private sector participation in the shipping industry
- Promote the development of a training center for intermodal transport, forwarding and transit services and integrated logistics operations and provide certificate of competency
- Introduce effective use of information and communications technology in the corridor and maritime sector

The objectives for the MAA are clearly set out in Proclamation 549/2007:

- Improve and expand the maritime sector in an organized manner to provide an enhanced and smooth service
- Use modern means and techniques to administer dry ports, marine transport, and multimodal transport services and regulate vessels and marine transport and other maritime services, and make use of inland waterways for transportation,
- Reduce transit time of import and export of goods and coordinate the concerned government bodies to care for goods at port

- Establish a government body reporting directly to Ministry of Transport to
 - Assume maritime-related duties currently carried out by various government bodies and responsible for analysis and work out maritime issues
 - Follow up and execute obligations and rights of the country under international maritime convention

MAA has the following powers and duties relating to multimodal and logistic activities, among others:

- Supervise, coordinate, and render timely solutions to problems arising in the course of operations
- Coordinate government bodies' efforts to minimize the transit time of imports and exports
- Develop the construction and expansion of service of dry ports, develop skills in negotiation of cost of transit, shipping of goods, and other freight services in the course of import and export operation
- Issue licenses and supervise bodies and persons engaged in sea and inland waterways transportation services Inspect, license, and regulate all dry port and vessel services and facilities, the services at custom check points
- Issue licenses to persons desiring to engage in multimodal transport business, renew such licenses, and supervise their operation
- Regulate and supervise dry ports, freight forwarders, shipping agents, and customs clearance; issue detailed directives; coordinate their tasks; and improve their capacity
- Regulate conditions under which passengers, goods, and mail may be transported in vessels
- Negotiate with the approval of the ministry, international and maritime transit services, issue implementation regulations and follow up their executions

The MAA has no legislative power to enact primary or subordinate legislation or issue binding directives; it drafts regulations and the minister submits them to the Council of Ministers and drafts directives for issuance by the minister.

Two powers are seemingly given directly to the MAA to issue its own regulations and directives in articles 6(8) and 6(9). Article 6(8) gives the power to the MAA to regulate and supervise dry ports, freight forwarders, ship agents, and the operation of customs clearing, issue detailed directives, coordinate their tasks, and improve their capacity. Article 6(9) gives the MAA the power to negotiate international maritime and transit services, issue implementation regulations, and follow up their execution. MAA has also powers to issue multimodal transport operator (MTO) licenses.

At the initiation of MAA, the Ministry of Transport issued four directives in February 2013 governing export and import transit transport procedures, bulk shipment imports and multimodal transport system. They list detailed duties of the various agencies involved in the particular mode and provide service delivery standards for each procedure described therein. Agencies covered by the directives include MAA, ESLSE, ERCA, Ministry of Trade, National Bank of Ethiopia (NBE), commercial banks, importers and exporters, freight forwarders and shipping agents, shipping companies.

However, MAA does not have the authority to “force” other agencies to implement the duties as stated in the directive and within the stipulated time period. Second, the concerned agencies and the other actors (such as freight forwarders) may not have the capacity to carry out the activities required of them. MAA needs clear authority to coordinate the actions of multiple agencies for successful implementation of the Logistics Strategy. The relationship and distribution of powers between MAA and other agencies such as TA, ESLSE, and ERCA needs to be clarified. For that reason it is advisable to change its name to reflect this responsibility – Maritime and Corridor Affairs Authority.

19. Legal Framework

The Customs Transit Protocol Agreement with Djibouti establishes freedom of transit for movement of goods between Ethiopia and Djibouti, it was signed in 2008 and is valid for 20 years.

Shortcomings of this transit framework include:

- Current regulation does not authorize electronic processing. A draft e-commerce law was recently proffered to the Council of Ministers. The law should include provisions on recognizing electronic data on shipments
- The valuation system conflicts with the valuation methods stipulated in customs proclamation 622/2009, which provides detailed rules and procedures on determining customs value—methods of the WTO Agreement on Customs Valuation. Invoice values should be rejected only when there is doubt as to their genuineness.
- Businesses stated that the appeals process is unsatisfactory. Importers must pay the assessed duties and taxes before lodging their complaint and wait for a review.
- Importers and freight forwarders have raised issues with the inability or unwillingness of customs staff to make decisions that fall within their duties.
- Deferred payment privileges, part of the authorized economic operator program, are not offered because they are not authorized in customs regulations, which need to be amended to realize full benefits from the program.
- Bonded warehouses are not yet permitted for freight forwarders. A regulation allowing this is waiting to be ratified.

There is draft policy for railway in the Draft Transport policy from MT referred to earlier. The absence in the Draft Policy of any mention of possible new railway operators or possible use by other operators of the railway infrastructure being constructed is a possible gap that needs to be reviewed. The legal framework for railways can of course be amended, but the better view is to provide for at least a regulatory power to deal with third-party involvement in the future.

20. Conclusion

Governments in developing countries depend heavily on trade to generate hard currency, and finance their investments on infrastructure and production sectors. As a result, they have been increasingly focusing on the competitiveness of their exports and reducing the cost of imports.

Most countries have concentrated on infrastructure investments as the key to resolving all the problems. Capacity constraints are indeed a very visible consequence that most people understand. Governments have been working on specific elements on the supply chain for some time, they understand them well and are run relatively efficiently. These elements correspond to different transport modes, customs, warehouses, markets, and banking agencies.

Unfortunately, while focusing on discharging their specific responsibilities to the best of the abilities, individual agencies fail to grasp how their operations impact the national supply chains. What for an individual agency might be a negligible inefficiency, can be critical to the entire supply chain. By delaying the release of the cargo, or choosing an inefficient discharge method, the systemic impact on the network increases exponentially as such delays were not considered in the independent facility design used by each of the agencies involved. Each agency designs specific links and nodes of the logistics chain individually and independently from the rest of the chains.

Logistics therefore is seen by many countries as a way to coordinate, jointly plan, regulate and operate the entire logistics chain which encompasses previously disconnected elements into a smooth and efficient process. Hence, their interest in the creation of National Logistics Plans and Strategies.

In Ethiopia, the agency designated to coordinate the logistics activities along the international trade corridors and the access to domestic markets and production areas is the Maritime Affairs Authority (MAA).



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