



**Pan African Chamber of  
Commerce and Industry**



# THE IMPACT OF COVID-19 ON TRADE AND TRADE FACILITATION ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR

## ANALYSIS AND RESPONSES NEEDED

Briefing paper prepared under the project “Improving Trade  
facilitation Environment in the IGAD Region Through  
Knowledge Generation and Capacity Building”

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# TABLE OF CONTENTS

<b>LIST OF TABLES, FIGURES AND BOXES.....</b>	<b>4</b>
<b>ABBREVIATIONS .....</b>	<b>4</b>
<b>1 INTRODUCTION.....</b>	<b>5</b>
<b>2 COVID-19 AND TRADE ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR: THE ISSUES FACED .....</b>	<b>6</b>
2.1 An overview of Ethiopia's international trade in times of COVID-19 .....	6
2.1.1 Export performance .....	6
2.1.2 Import performance .....	9
2.1.3 Challenges faced.....	11
2.2 The authorities' response to facilitate trade .....	12
2.2.1 Economic and trade-facilitating measures taken by the Government of Ethiopia .....	13
2.2.2 Challenges faced.....	16
2.3 The views of business .....	17
2.3.1 Business views as expressed in two surveys.....	17
2.3.2 Business views and support provided .....	19
<b>3 COVID-19 AND TRADE ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR: THE RESPONSE NEEDED .....</b>	<b>19</b>
3.1 General trade policy/trade facilitation responses .....	19
3.2 Specific trade facilitation responses .....	22
3.2.1 Harmonization of customs rules and procedures and flexibility in documentation requirements ...	22
3.2.2 Harmonization of transport regulation .....	23
3.2.3 Need for coordination: corridor management .....	23
3.2.4 Promoting transparency .....	24
3.2.5 Increased use of technology .....	24
3.2.6 Reforming the logistics sector .....	25
3.2.7 Improving the efficiency of the Djibouti port and the border posts.....	26
3.2.8 Regional integration and trade facilitation – the role of IGAD .....	27
3.3 Harnessing technical assistance – the role of development partners' support .....	29

## LIST OF TABLES, FIGURES AND BOXES

Table 1: Key economic-related measures taken by Djibouti and Ethiopia following COVID 19, until 11 September 2020.....	20
Figure 1: Trends in Ethiopia's exports by product, 2015/16 – 2018/19 (percent of total exports) .....	7
Figure 2: Trends in Ethiopia's total exports, January-June 2020 (percent) .....	7
Figure 3: Trends in Ethiopia's merchandise exports during the COVID-19 period, main export products (January-June 2020) .....	8
Figure 4: Major destinations of Ethiopia's exports, January-June 2020 (percent of total exports).....	9
Figure 5: Composition of Ethiopia's imports, 2015/16 – 2018/19 (percent of total imports).....	10
Figure 6: Trends in Ethiopia's imports, January-June 2020 (percent) .....	10
Figure 7: Ethiopia's imports by origin, January-June 2020 (percent of total imports) .....	11
Box 1: The Northern Corridor Transit and Transport Coordination Authority (NCTTCA) .....	24
Box 2: Some figures on Ethiopian and corridor logistics .....	25
Box 3: The EAC and logistics performance .....	27
Box 4: Outcomes of reforms at the Northern Corridor .....	28

## ABBREVIATIONS

AfDB	African Development Bank
ASYCUDA	Automated System for Customs Data
COMESA	Common Market of Eastern and Southern Africa
EAC	East African Community
EDR	Ethio-Djibouti Railway
ESLSE	Ethiopian Shipping and Logistics Service Enterprise
ETB	Ethiopian birr
GVC	Global Value Chain
IGAD	Intergovernmental Authority on Development
ITFE	Improving Trade Facilitation Environment
MSME	Micro, Small and Medium-sized Enterprises
NCTTA	Northern Corridor Transit and Transport Agreement
NCTTCA	Northern Corridor Transit and Transport Coordination Authority
PACCI	Pan-African Chamber of Commerce and Industry
PPD	Public-Private Dialogue
RECs	Regional Economic Communities
SADC	Southern African Development Community
SMEs	Small and Medium-sized Enterprises
TFA	Trade Facilitation Agreement
UNCTAD	United Nations Conference on Trade and Development
US\$	United States dollar
VAT	Value Added Tax
WTO	World Trade Organisation

# 1 INTRODUCTION

Trade of the member states of the Intergovernmental Authority on Development (IGAD), like that of any other country in the world, has been severely impacted by the global Covid-19 pandemic. Different sectors of national economies have been shut down, including hotels, restaurants, non-essential retail trade, tourism, and significant shares of manufacturing. Globally, the World Trade Organization (WTO) in April 2020 estimated that world trade could fall by up to 32% in 2020 as the pandemic disrupts normal economic activity and life around the world which the Organization believe will likely exceed the one brought on by the global financial crisis of 2008-09.<sup>1</sup> More recent estimates by the WTO and other international organisations are somewhat less pessimistic but still foresee a double-digit contraction in 2020 followed by a limited recovery in 2021.<sup>2</sup>

In addition to the direct impact, the fear is that countries may focus on recovery of their own national economies with less attention to regional economic integration.

This paper aims at providing a rapid assessment of the immediate effects of COVID-19 on trade and trade facilitation in the IGAD region with a particular focus on the Ethiopia-Djibouti corridor. The Ethiopia-Djibouti corridor is a main conduit for trade in the IGAD region. It is the dominant gateway for Ethiopia, accounting for over 95 percent of the country's exports and imports, with other routes (e.g. Port Sudan, Berbera and Mombasa) being of limited importance.

The objective of this briefing paper is to provide the two direct beneficiaries of the African Development Bank's (AfDB's) 'Improving Trade Facilitation' project, the IGAD Secretariat and the Pan-African Chamber of Commerce and Industry (PACCI) with a summary of the impacts of the pandemic on trade along the Ethiopia-Djibouti corridor and trade facilitation more in general, as well as with broad recommendations on how to counter the effects. Because the Corridor is mainly used by Ethiopia, the focus of the analysis, in particular the economic analysis, is on Ethiopia rather the Djibouti.

We first provide an overview of the development of trade performance until June 2020 (section 2.1), the authorities' response to counter the negative impacts of COVID-19 (section 2.2) and the views by businesses on these issues (section 2.3). Then, in section 3, we set out some broad ideas for the necessary policy response not only to increase resilience of the trade and transport sectors in times of the pandemic but to enhance their performance in a sustainable way. We do so by addressing general trade policy responses (section 3.1) as well as some more specific trade facilitation responses (section 3.2), and providing some proposals on how technical assistance and donor support could contribute to the identified responses (section 3.3).

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<sup>1</sup> WTO, Trade set to plunge as Covid-19 pandemic upends global economy. Available at [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm).

<sup>2</sup> See the summary provided by the WTO in June 2020, [https://www.wto.org/english/news\\_e/pres20\\_e/pr858\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr858_e.htm).

## 2 COVID-19 AND TRADE ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR: THE ISSUES FACED

The impacts of the pandemic on international trade flows can be assessed in two dimensions: demand and supply. Demand side factors can originate from two sources, namely global (for exports) and domestic (for imports). Slowdown in private and public sector investment, loss of export orders, etc. are demand related shocks due to the pandemic. Increased travel restrictions, border closures and reduced growth prospects for key trading partners in North America, Europe and Asia due to the COVID-19 pandemic will continue to limit demand for Ethiopia's exports over the short-term.

Supply side shocks include disruptions in production (both domestic and imported) and supply chains (both domestic and global) continue to impede production. On the domestic side, various interventions introduced by the Government of Ethiopia aim to mitigate the spread of the pandemic could potentially affect domestic production and hence supply of goods and services to the global market. These measures are related to public health measures (e.g. isolation and quarantine, health screenings, testing, wearing protective gear, etc.), movement restrictions, economic measures (such as reduced operating capacity (e.g. transports), tax exemptions, fiscal stimulus, liquidity injection, interest rate reduction, loan rescheduling, etc.), social measures (e.g. physical distancing, public service closure, limit public gatherings, school closures, etc.), regulatory reforms (e.g. single window services and governance and lockdown (e.g. partial lockdown, border closures, state of emergency, stay-at-home, etc.)). These measures are expected to trigger both positive and negative effects on the domestic production of goods and services. Fiscal and monetary interventions help uninterrupted production of goods and services, while other interventions such as movement restrictions, lockdown, social distancing, etc. tend to reduce supply, especially those sectors that rely on social interactions such as transport, restaurants and hotels, trade (wholesale and retail trade), entertainment, and tourism. A recent study indicates that 88 percent of hotels in Addis Ababa are either partially or fully closed, with an average overall national hotel occupancy rate at 2 percent.<sup>3</sup>

### 2.1 An overview of Ethiopia's international trade in times of COVID-19

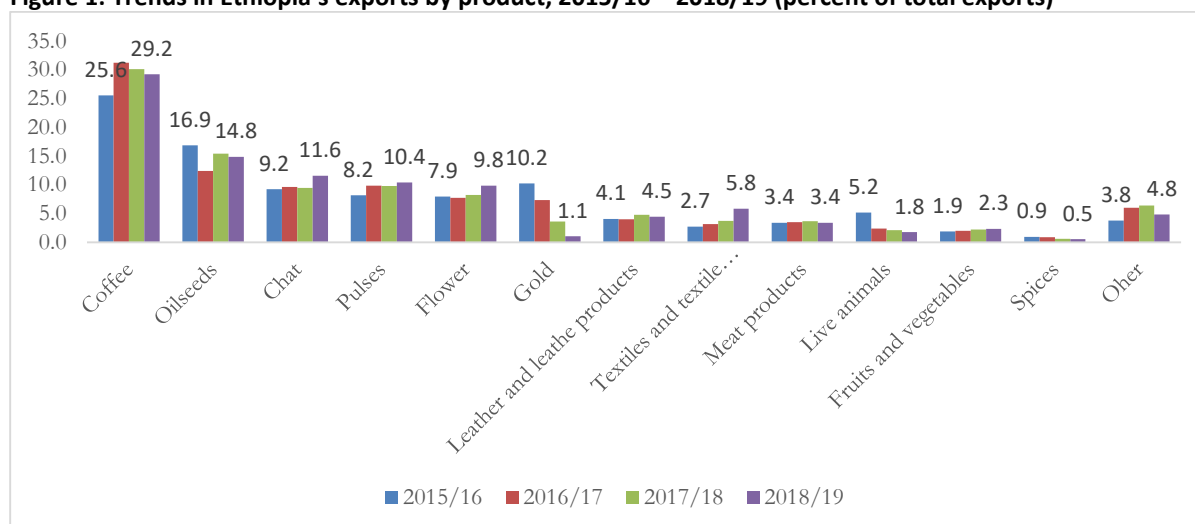
#### 2.1.1 Export performance

Although Ethiopia has increased its exports of agricultural goods other than coffee in recent years, the export base has remained narrow, with five products (i.e. coffee, oilseeds, chat, pulses, and flower) accounting for more than 75 percent of Ethiopia's total exports in 2018/19 (**Figure 1**). This shows a high dependence of Ethiopia on a narrow set of agricultural export commodities. Merchandise exports increased by 5.4 percent between 2015 and 2018, mainly driven by a surge in exports of textiles and textile products, pulses, chat, flower, and fruits and vegetables.

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<sup>3</sup> CIPE (2020). Responding to the COVID-19 pandemic in Ethiopia: The private sector experience, Addis Ababa.

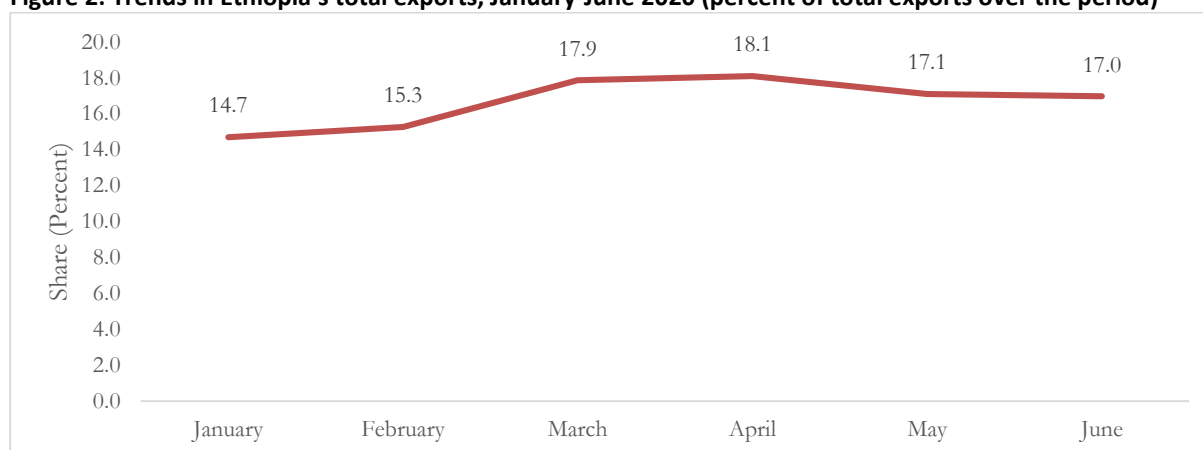
**Figure 1: Trends in Ethiopia's exports by product, 2015/16 – 2018/19 (percent of total exports)**



Source: Based on National Bank of Ethiopia data

Although the pandemic affects all economic activities, some sectors (e.g. trade, transport, tourism and hospitality) are hit hard compared to others.<sup>4</sup> A look at the monthly trade statistics indicates that total merchandise exports declined by 2.6 percent between April and June (Figure 2).

**Figure 2: Trends in Ethiopia's total exports, January-June 2020 (percent of total exports over the period)**



Source: Ethiopian Customs Commission

Commodity exports evolved differently during the pandemic. A rather positive development is the cut flower sector (Figure 3). Although flower exports experienced a significant decline early on in the pandemic, i.e. in March and April 2020 – driven by a fall in demand for the product by major importers due to imposed movement restrictions and other measures – between May and June 2020, flower exports increased due to the easing restrictions on Ethiopia's major importers of flower products (e.g. The Netherlands). In addition, Ethiopian Airlines has maintained cargo services which has helped in easing logistics problems related to flower exports, while other countries (e.g. Kenya) suspended cargo flights because of COVID-19. The decision of Ethiopian Airlines to continue its regular cargo flight, at elevated level, has helped support flower exports.<sup>5</sup> In addition, the government introduced a logistics subsidy including free rail transport and reduced

<sup>4</sup> Degye Goshu, Tadele Ferede, Getachew Diriba, and Mengistu Ketema. (2020). Economic and Welfare Effects of COVID-19 and Responses in Ethiopia: Initial insights, Policy Working Paper 02/2020, Ethiopian Economics Association, Addis Ababa, Ethiopia.

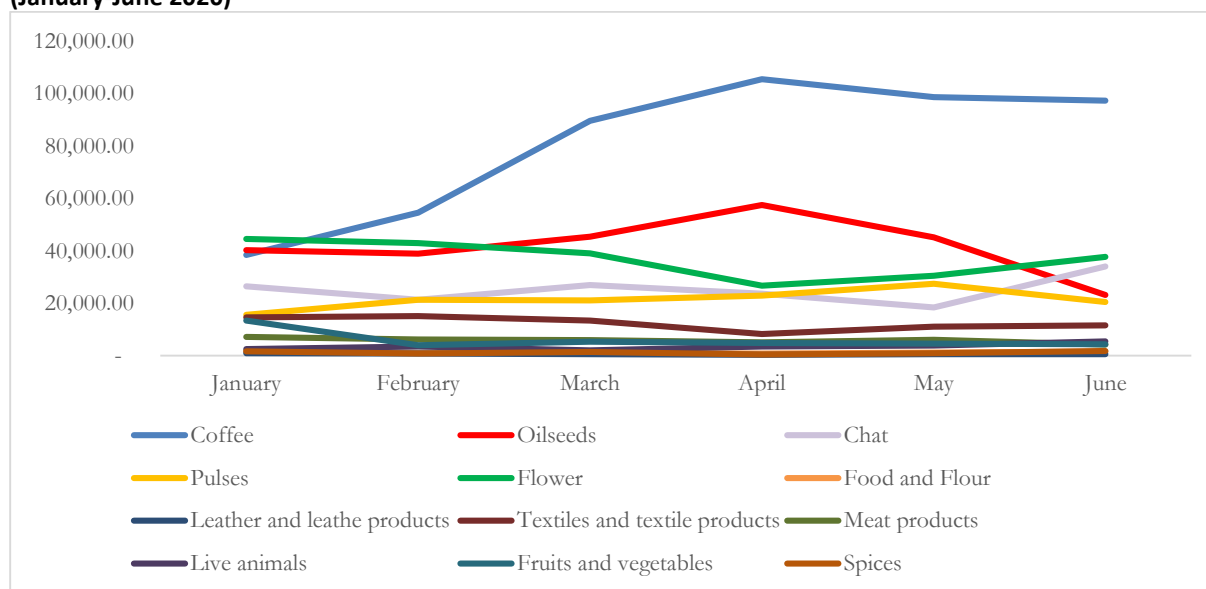
<sup>5</sup> In addition, the flood has damaged flower products in Kenya which helped increase demand for Ethiopian flower. See <https://www.capitalethiopia.com/featured/flower-export-resumes-after-interruption/>

dry-dock and air freight charges to support exporters.<sup>6</sup> Some recovery can also be seen for chat and textiles products; exports of the latter shrank by almost half between February and April but then slightly recovered until June, to about three quarters the level at the beginning of the year.

Other export commodities such as coffee, oilseeds and fruits and vegetables show a declining trend (Figure 3). Between April and June 2020, for example, exports of coffee, oilseeds, pulses, meat products and fruits and vegetables declined by 2.6, 26.2, 3.7, 5.7 and 3.8 percent, respectively.

This could be explained by both supply and demand factors. On the demand side, Ethiopia's most important trading partners, including the European Union, China, the United States and India have suffered from the pandemic, which has tended to reduce imports from Ethiopia. The World Bank firm surveys indicate that about 74.8 and 81.7 percent of firms in industry and services sectors reported a reduction in demand for their products and services due to COVID-19, respectively.<sup>7</sup> For example, textiles and garment experienced a significant drop in demand in the early days of the pandemic.<sup>8</sup> Subsequently, textiles and garment industries faced a drop in orders and difficulty in financing their operations.

**Figure 3: Trends in Ethiopia's merchandise exports during the COVID-19 period, main export products (January-June 2020)**



Source: Ethiopian Customs Commission

On the supply side, domestic production has also been adversely affected by government measures such as social distancing and partial lockdowns which firms have been forced to scale down their operation. For example, about 30 and 27 percent of firms in industry and services, respectively, reported that their businesses were affected by restricted movement of workers. Firms also reported low capacity utilization at 35 percent.<sup>9</sup> Expectations remain grim, with a higher share of firms expecting to let go of workers than to hire workers.

<sup>6</sup> Oqubay, A. (2020). Ethiopia's response to COVID-19, a blog available at: <https://oecd-development-matters.org/2020/05/26/ethiopias-response-to-covid-19/>

<sup>7</sup> World Bank (2020). Monitoring COVID-19 Impacts on Firms in Ethiopia: High-Frequency Phone Survey of Firms, Washington, D.C.: World Bank Group.

<sup>8</sup> Job Creation Commission. (2020). COVID-19: Potential impact on jobs and incomes in Ethiopia, and short-term policy options.

<sup>9</sup> Bundervoet, Tom, Tefera, Girum Abebe and Wieser, Christina (2020). *Monitoring COVID-19 Impacts on Firms on Ethiopia: Results from a High-Frequency Phone Survey of Firms*, Report No. 3, Washington, D.C.: World Bank Group.

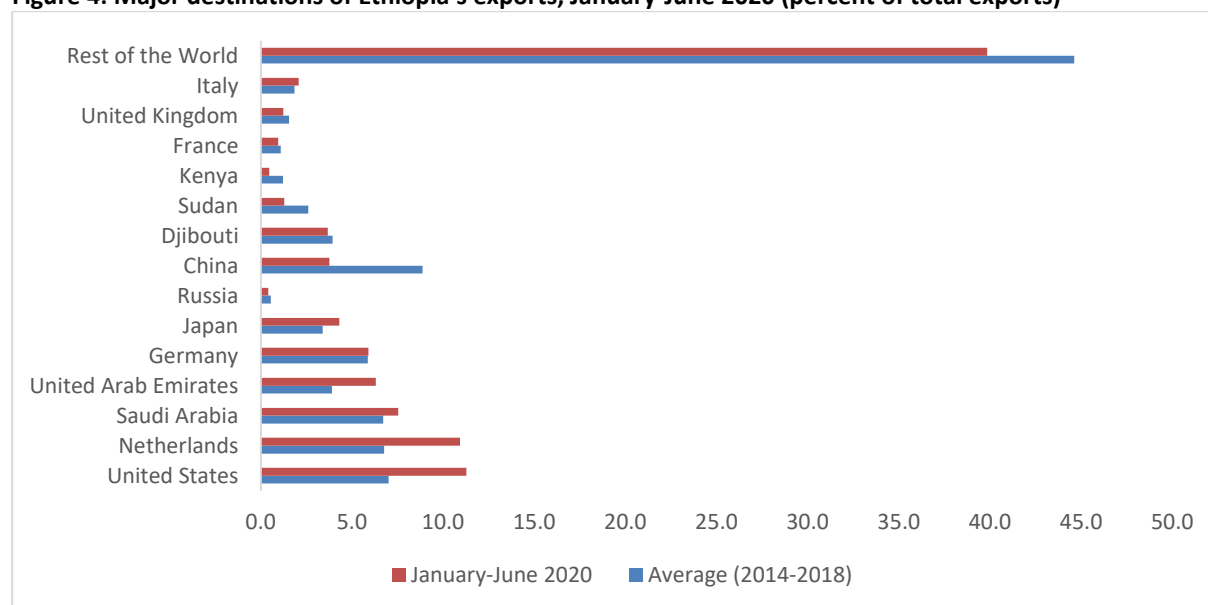


In addition, delays imported raw materials negatively affected domestic production of goods. Between 13.9 and 16.3 percent of firms in industry and 6.4 and 9.4 percent of firms in services in Ethiopia reported lower supply of raw materials and other intermediate inputs due to the pandemic (World Bank, 2020). Firms have also increasingly faced higher prices of raw materials and intermediate inputs. For example, the share of firms who reported higher prices of raw materials and intermediate goods increased from 16.2 in April to 19.4 percent in June for firms engaged in industry and from 5.6 and 14.8 percent for those engaged in services.

Finally, global competition has increased: as other countries competing with Ethiopia have started reopening their economies, the supply of coffee and oilseeds in the global market has increased again.

Data on exports by destination show that the United States, Netherlands, Somalia, Saudi Arabia, United Arab Emirates and Germany accounted for 51.3 percent of total exports between January and June 2020 (Figure 4). Asian countries have remained the main destination of Ethiopia's exports during the pandemic. In particular, about 13.5 percent of total exports destined in Saudi Arabia and United Arab Emirates. Between October and December of 2019/20 (pre-COVID-19), Asia accounted for 35 percent of total exports.<sup>10</sup> Between 2014 and 2018, China was the main destination of Ethiopia's exports, accounting for 8.9 percent of total exports, which has halved during the pandemic. Five countries (China, United States, Netherlands, Saudi Arabia and Germany) accounted for more than a third of total exports over the same period. It appears therefore that the pandemic has, at least so far, not changed the direction of Ethiopia's exports fundamentally. This could be explained by the fact that the pandemic has been truly global, heavily affecting countries all over the world (at least Ethiopia's main export destinations) in similar ways.

**Figure 4: Major destinations of Ethiopia's exports, January-June 2020 (percent of total exports)**



Source: Ethiopian Customs Commission, NBE

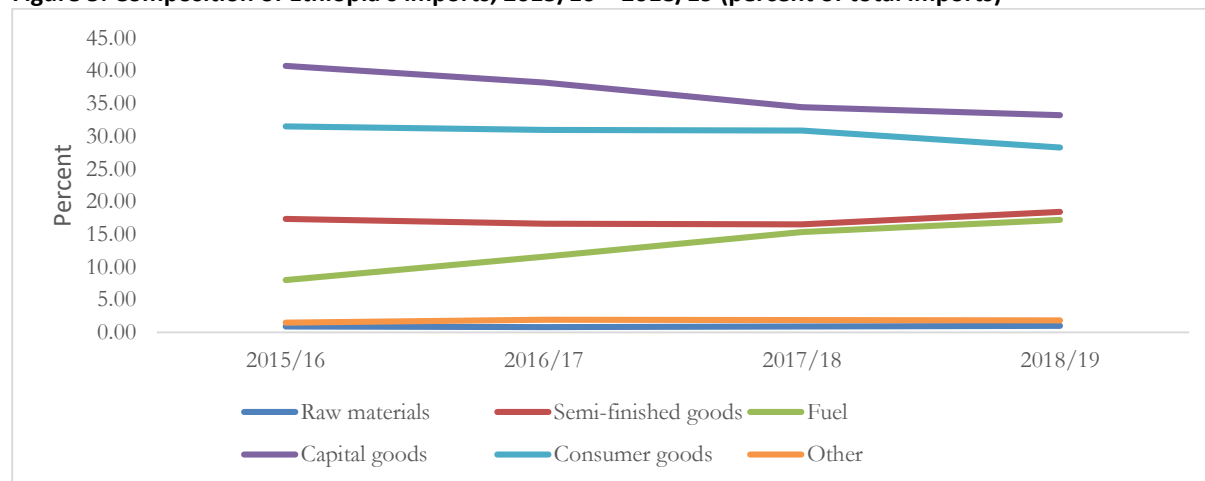
### 2.1.2 Import performance

The total import bill decreased from US\$ 16.7 billion in 2015/16 to US\$15.1 billion in 2018/19, a 2.6 percent drop per year. The structure of imports (Figure 5) reveals that Ethiopia's import is dominated by capital goods (notably industrial and transportation equipment), accounting for 33.2

<sup>10</sup> NBE (2020). Quarterly Bulletin: Second Quarter 2019/20, Vol.36 (2), Addis Ababa.

percent of total imports, followed by consumer goods (28.3 percent of total imports in 2018/19). Semi-finished goods and fuel account for 18.5 percent and 17.2 percent of total imports in 2018/19. The value of fuel imports increased substantially in the period under review, driven by price developments.

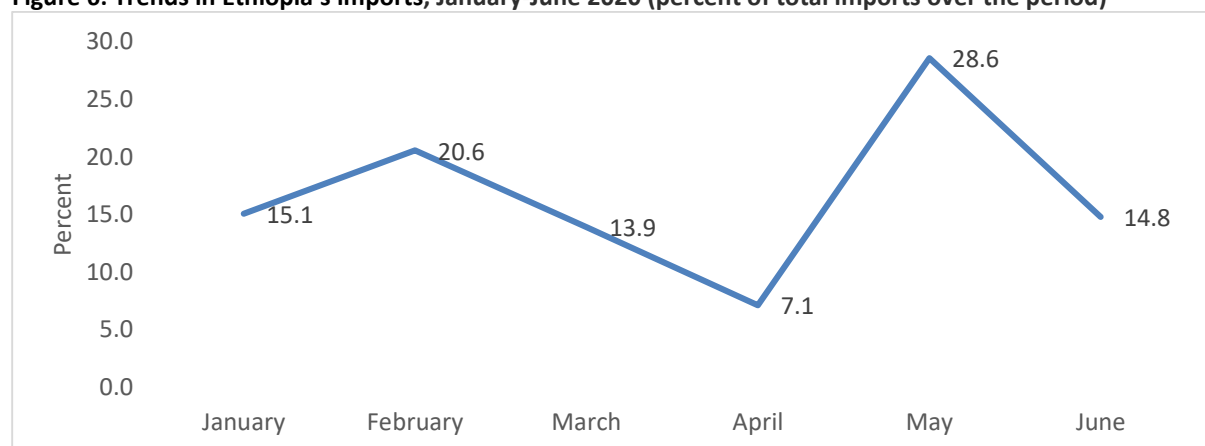
**Figure 5: Composition of Ethiopia's imports, 2015/16 – 2018/19 (percent of total imports)**



Source: National Bank of Ethiopia

Recent data on imports indicate that total imports declined between February and June 2020 (Figure 6). A surge in May is largely due to imports of chemical fertilizers by the government for the next farming season. Since the COVID-19 outbreak in January 2020 and of the global pandemic in March, countries followed different measures including lockdowns, movement restrictions, etc. The decline in imports between February and June can be linked to measures which caused import supply disruptions. Thus, it is not surprising to see a decline in imports during these months as the spread of virus had been increasing not only in China but also across the globe.

**Figure 6: Trends in Ethiopia's imports, January-June 2020 (percent of total imports over the period)**

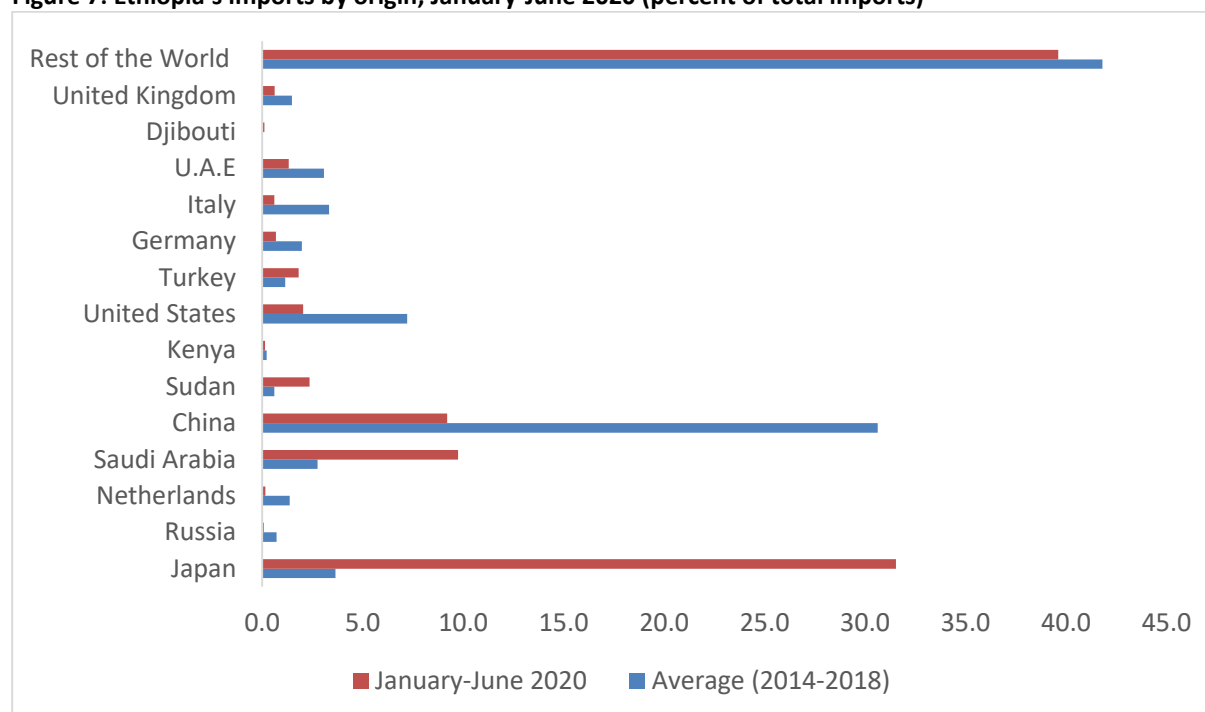


Source: Ethiopian Customs Commission

Data on Ethiopia's imports by origin indicate that Asian countries were the main sources of Ethiopia's imports between October and December of 2019/20, with total imports from Asia accounting for about 63.4 percent of the total. Imports from China were significant. During the pandemic period (Figure 7), imports from Japan, Kuwait and Singapore accounted for 31.5, 13.7 and 12.3 percent of total import bill, respectively, between January and June 2020. Six Asian countries (Japan, Kuwait, Singapore, Saudi Arabia, China, and India) accounted for a large share (78.8 percent) of import bill. However, China used to be the main source of Ethiopia's imports

before the pandemic, but imports from China declined during January and June 2020. Between 2014 and 2018, China accounted for 30.6 percent of total imports, followed by USA (7.2 percent) and Japan (3.6 percent). The pandemic has changed imports sources to countries (at least initially) less affected by the pandemic, such as Japan and Singapore.

**Figure 7: Ethiopia's imports by origin, January-June 2020 (percent of total imports)**



Source: Ethiopian Customs Commission, NBE.

### 2.1.3 Challenges faced

As mentioned, challenges confronting Ethiopia's trade performance exist at various levels.

#### Demand shocks

In line with the global economic downturn, demand for many products and services initially sharply decreased – although it somewhat recovered since somewhat for most products), whereas demand for other products and services (in particular essential ones such as food and fast-moving consumer goods, those that are crucial for coping with Covid-19, and services replacing face-to-face situations with distance situations) has strongly increased. Ethiopia has been spared the worst as demand for its main export commodities – agricultural products – is fairly inelastic.

#### Supply shocks

Production capacity in Ethiopia, like in most countries, has been reduced due to lock-downs limiting the availability of personnel and inputs for production in the short term, and risking bankruptcy of many businesses, affecting production capacity in the medium to long term. Absence of workers due to fear of being infected has also affected at least some sectors, like garment production, in the early stages of the pandemic,<sup>11</sup> but this no longer seems an issue. Businesses are

<sup>11</sup> "Coping with COVID-19 – Lesson from the Ethiopian garment and textile industry," ILO, 10 June 2020, available at [https://www.ilo.org/africa/technical-cooperation/inclusive-industrialization/WCMS\\_747445/lang-en/index.htm](https://www.ilo.org/africa/technical-cooperation/inclusive-industrialization/WCMS_747445/lang-en/index.htm).

dependent on support being provided directly as well as through changes in the regulatory environment, as addressed in the next section.

### **Trade, transport and logistics challenges**

Changes in trade rules in response to the crisis have affected trade in various ways. On the one hand, due to health concerns many countries have resorted to trade restrictions (such as export bans on medical products), although this has hardly affected Ethiopia's trade performance. The availability of international transport – especially air transport – which has been an issue for many countries, has been handled quite well by the Ethiopian government, as the next section shows, as have been issues related to transport costs. Nevertheless, restrictions on transport and the movement of persons, as well as fears by transport equipment operators have also affected trade along the Ethiopia-Djibouti corridor. On the other hand, technical solutions, such as process optimisation, better communication across borders or better use of technology including digital tools have facilitated cross-border trade and, at least to some extent, ameliorated the negative effects of the pandemic (see next section)<sup>12</sup> and could yield, if further enhanced, lasting benefits for traders and trade-facilitating agencies alike.

### **Spill-overs on trade from wider economic and structural effects**

In the longer term, the pandemic is expected to lead to structural changes in the global economy. Many countries are expected to re-shore production of certain goods deemed essential to reduce dependence from foreign suppliers. Likewise, global value chain (GVC) leaders are expected to restructure the value chains with the aim of reducing risks – reinforcing the already ongoing trend towards onshoring. This is likely to impact negatively on foreign direct investment; for example, UNCTAD estimated (on 26 March 2020) that downward pressure on FDI flows could range from -30% to -40% during 2020-2021.<sup>13</sup> Ethiopia, like other – especially land-locked – IGAD countries, will need to find responses to these changes.

## **2.2 The authorities' response to facilitate trade**

The governments of both Ethiopia and Djibouti acted fast in trying to stop the spread of coronavirus in their respective countries. Djibouti introduced a lockdown, excluding essential services, for Djibouti city on March 7 and a national one on March 23. The country banned all international flights and closed its borders. However, cargo movement was not restricted and commercial traffic to and from Ethiopia was permitted through the Galafi border crossing.<sup>14</sup>

The lockdown in Djibouti has been gradually eased since May 17, 2020. Land and sea borders were opened on July 17, 2020 with international flights – which had been suspended since March 18 – resuming on July 18. It also introduced social distancing and other measures aimed at reducing the spread of coronavirus.

Ethiopia declared a national state of emergency on March 8 for five months. It imposed mandatory quarantine of 14 days for all passengers arriving to the country from March 20. It suspended movement across land borders except cargo and essential goods from March 23 and introduced other measures including social distancing and face mask requirements.

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<sup>12</sup> See UNCTAD 2020: How countries can leverage trade facilitation to defeat the Covid-19 pandemic, 22 April 2020.

<sup>13</sup> <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2313>.

<sup>14</sup> Measures in COMESA Member States in Response to Covid-19- 11<sup>th</sup> Edition; p. 6-7; 19 June, 2020.

Ethiopia also introduced measures aimed at mitigating the economic effect of COVID-19. These include the national (central) bank availing additional liquidity to private banks to enable them provide assistance to their customers, especially the businesses adversely affected by COVID-19. Ethiopia has also introduced measures to increase electronic transactions including passing an electronic transactions law at the end of May 2020.

In March 2020, the Ethiopian Ministry of Labour and Social Affairs issued a protocol on labour in response to the COVID-19 challenge.<sup>15</sup> In addition to stipulating protection measures to be taken by employers and employees at workplaces, the protocol also provides measures to mitigate the adverse effects of the pandemic including wage freezes and limiting layoffs by businesses.

### 2.2.1 Economic and trade-facilitating measures taken by the Government of Ethiopia

As indicated in section 2.1, the Ethiopian economy, like many others globally, is experiencing a decline in external revenues and weakening of trade due to COVID-19. The government of Ethiopia has launched a comprehensive reform agenda to systematically address the issues facing business during the crisis, with these measures being implemented across government institutions. To date, various activities have been undertaken, comprising financial, non-financial, regulatory and policy interventions, to mitigate the impact of the pandemic on the economy and address the most pressing structural constraints. These activities are targeted to support businesses through a set of financial and non-financial packages. A highlight of these measures is presented below.

#### **Support to businesses**

A set of packages through financing, fiscal reliefs and market access has been designed and is being implemented across government in support of businesses. The focus of these interventions is ensuring economic resilience and quick recovery by supporting businesses that are severely affected by the pandemic and encouraging service providers and manufacturers to continue their operation. Specific measures implemented include:

- On 03 April 2020, the Prime Minister's Office announced a COVID-19 Multi Sectoral Preparedness and Response Plan, including a prospective costing of interventions. The plan was initially sought to be executed over a three-month period, requiring US\$1.64 billion in funding. In practice, ETB 5 billion of preliminary budget for emergency expenditure has been provided and ETB 33 billion of additional liquidity has been disbursed to the Commercial Bank of Ethiopia to address liquidity shortages.
- ETB 15 billion has also been availed by the National Bank of Ethiopia for private banks to enable them to provide debt relief and additional loans to their customers. This is meant to support private banks from incurring liquidity challenges from expected lower deposits and loan collection and make available working capital for specific sectors impacted by the COVID-19 pandemic. In line with these measures, private banks are also providing foreign currency for importers primarily importing goods and input materials specific to the prevention of COVID-19. This is followed by a decision of the government to allow exporting manufacturers who cannot supply their products to the international market (due to disruptions caused by COVID-19) to supply their products to the local market. However, exporting companies will be selected to participate in specific local markets previously restricted for exporters on the basis of an assessment conducted by the Ethiopian Investment Commission (with the view of protecting already existing local suppliers).
- The government has also relaxed the National Bank's non-performing loan directive to

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<sup>15</sup> COVID-19 Workplace Response Protocol, Ministry of Labour and Social Affairs, March 2020.

allow banks to reschedule loan payments for highly affected sectors like horticulture, hotels, and tourism among others, while the Development Bank of Ethiopia has also instituted a special window service for credit to micro, small and medium-sized enterprises (MSMEs) to facilitate quick disbursement. Credit has also been availed to Micro Finance Institutions and cooperatives to support small scale businesses, farmers and consumers cooperatives respectively.

- To combat cash flow issues and at the same time limit in-person cash handling, the Commercial Bank has increased the amount of money that individuals can transfer through mobile banking. In line with this measure, new laws have also been enacted to facilitate the ease of mobile payments and increase of mobile transfer limits. These are expected to have positive impacts beyond the pandemic, garnering the potential to transform the mobile technology sector and create much-needed jobs.
- Specific measures towards highly affected sectors have also been instituted, such as removal of a minimum price (or floor price) set by National Bank of Ethiopia on the horticulture sector for flower exports. Specific funds have been allocated to highly affected sectors, such as an ETB 3.3 billion (US\$96 million) allocation granted to the tourism sector.
- On 30 April 2020, the Council of Ministers also approved another set of economic measures to support firms and employment. These measures especially target taxpayers engaged in the service, manufacturing, export trade, finance, and construction sectors. Specific measures include forgiveness of tax debt prior to 2014/2015, a tax amnesty on interest and penalties for tax debt pertaining to 2015/2016-2018/2019, and exemptions from personal income tax withholding for 4 months for firms who keep paying employee salaries despite not being able to operate due to Covid-19.
- In addition, other additional fiscal measures have also been taken across government which include: tax exemptions for the import of materials and equipment to be used in the prevention and containment of COVID-19; expedited VAT returns by the Ministry of Revenue to support companies; control of price increments and supply shortage of consumer goods; loss carry forward mechanisms put in place for businesses who incurred loss in 2020 fiscal year; and waiver of penalties for private companies who were not able to pay pension contributions.
- A broader set of measures to further support to enterprises and job protection in urban areas and industrial parks is also under discussion with the donor community but has not been formalized at the time of writing this document.

### Labor-related support

Support on work permits, working hours, to ensure safety and reduction of job lay-offs and continuity of existing operations has been put in place. These measures include:

- The Ministry of Labor and Social Affairs has announced a workplace response protocol, which addresses issues like bargaining agreements and salary increments. To this end, the negotiation of collective bargaining agreements and salary increment decisions are suspended for 12 months. However, any organization that is operating under Labor Proclamation 1156/2011 cannot cancel employment agreements unless it is within the regulation put in place by the Ministry of Labor and Social Affairs.
- Conditional firm registration and entry expatriate work permit facilitation is currently put in place. This would allow for facilitation of registration and work permit without the need to present notarized and authenticated documents, on time-limited undertakings letter from the firm.
- The government has established a system for quick visa acquisition and extension and issuance of residence ID to industrial park firms. This measure specifically targets



manufacturers who are engaged in the production of personal protective equipment.

- Payments of fringe benefits and allowances, such as hardship allowance, transport allowance, house allowance, bonuses and commissions have been suspended until COVID-19 is fully controlled.
- Provision of temporary loans for workers who occupy non-essential functions in the enterprises has also been put in place, with assurance given of their return pending the COVID-19 situation.

### Support to trade infrastructure and logistics reducing the cost of transport

Support packages focused on facilitating and alleviating pressures caused due to COVID-19 have also been put in place. These measures specifically focus on operational facilitation of trade logistics and trade facilitation. Specific measures put in place by the Ministry of Transport together with the Ethiopian Shipping and Logistics Service Enterprise (ESLSE) and the Ethio-Djibouti Railway (EDR) to reduce the cost of transport include:

- Export manufacturing industries who do not use railway services due to location distances from rail lines have been given a 50% discounted export freight services;
- Transport services dedicated for freight from Hawassa Industrial Park to Mojo is currently operating under a 50% discounted price and 73% discount for manufacturing sector exports using the services of ESLSE;
- EDR provides free rail transport for export products from industrial parks and export manufacturing industries that come through Mojo dry port to Djibouti free of charge. This measure has been in place since 01 May 2020, initially planned for three months, but is now in place until at least 30 September 2020;
- There has been a 50% cost reduction on inland transfer from industrial parks to Mojo railways; while demurrage cost at the port has been suspended until the situation on COVID-19 pandemic subsides;
- Finally, manufacturing export freights passing through Mojo port to Djibouti will have the entrance gate payment waived and all other charges will have a 50% discount from their initial prices.

### Trade facilitation

A number of measures that the Governments of Ethiopia and Djibouti are implementing will reduce the impact of COVID-19 by facilitating trade. The use of ICT-enabled trade facilitation measures has expanded and has become ever more important in the face of the the pandemic. Measures include the following ones.

- Establishment of *Electronic Single Window* to facilitate clearance processes for import, export, and transit of goods by automating the submission of documents. This electronic platform, launched in January 2020, is expected to significantly enhance the trading environment and remove some of the bureaucracy surrounding customs by replacing the need for physical, manual and duplicate processes.<sup>16</sup>
- *Electronic Customs Management System* for customs control and clearance, to maximize operational efficiencies and improve service delivery; this was developed from 2017 to 2020 and launched and rolled out during the pandemic.<sup>17</sup>

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<sup>16</sup> <https://www.worldbank.org/en/news/feature/2020/04/23/in-ethiopia-electronic-single-window-cuts-costs-and-time-to-trade>

<sup>17</sup> “Webb Fontaine Awarded ‘Certificate of Appreciation’ by Ethiopian Customs Commission for Successful Launch of Electronic Customs Management System”, 01 October 2020,

- *Cargo Tracking System* for its main cargo corridor from Djibouti to manage and monitor the movement of trucks and reduce the need for checkpoints and physical inspections, which is planned to be fully operational in 2022.<sup>18</sup> In addition, use of scanning machines for cargo transiting along the Ethio-Djibouti corridor.
- *Online Trade Registration and Licensing System* to process the issuance and renewal of business registration and licensing online.

## 2.2.2 Challenges faced

Despite various support measures having been put in place, businesses still face constraints in the continuity of operations, ensuring economic resilience, and enabling their quick recovery. This is further compounded by specific challenges observed in the implementation of government support areas. These challenges can be categorized into three specific areas, namely, lack of alignment of measures and structured communication, lack of automated and online systems, and limited problem-solving and decision-making capability of staff.

1. **Lack of alignment of measures and structured communication:** Institutions are developing measures keeping in mind their respective mandates and constituencies, with limited consideration and planning into the impact/applicability on other institutions, implementation and requirements of these measures. This limitation observed across government is further exacerbated by the limited communication among implementing institutions of the developed measures. This has led to overlap, and, in some cases, contradictory measures being communicated leading to customers (investors) reaching out to multiple points for clarification and approvals. One example of this are the inconsistencies in adoption of the country's COVID-19 Multi Sectoral Preparedness and Response Plan and implementation of other measures targeted at incentivizing manufacturers during COVID-19. These issues are partly caused by previously existing challenges relation to establishing strong public-private-dialogue focused on addressing challenges of sustained institutionalized existence and effort, incapability and legitimacy to analyze and foresee policy issues and poor credibility of government with the business community has put a significant strain on implementation.
2. **Lack of automated and online systems:** in order to combat COVID-19, health guidelines have been put in place by the Ministry of Health which require all governmental and private organizations to provide services to all customers while taking precautions to prevent spread of the virus. Under these measures it is prohibited to halt any basic public services like power and water supply, Ethio-telecom, medical services, banks, any food supply chains, cleaning services, fire emergency services, and security services. Federal agencies are operating at a reduced capacity with employees working from home and providing services from 07:30 AM and 03:30 PM at offices.  
The provision of key services in the above modality has brought to light several challenges:
  - a. A majority of institutions provide key services manually, requiring physical presence at the agencies. This means that delays in service provision can become a common occurrence in some areas.
  - b. Given the low levels of automation and use of technology, delays in public services availed by government institutions can cause significant constraints to business operating under the challenges of COVID-19. In addition, institutions with existing

<https://www.africanews.com/2020/10/01/webb-fontaine-awarded-certificate-of-appreciation-by-ethiopian-customs-commission-for-successful-launch-of-electronic-customs-management-system/>.

<sup>18</sup> "Regional Organisation to Upgrade Ethio-Djibouti Corridor", Hagos Gebreamlak/Addis Fortune, 18 July 2020, <https://addisfortune.news/regional-organisation-to-upgrade-ethio-djibouti-corridor/>.



technology platforms also do not have the proper uptake and face challenges in the application of approved measures through their platforms.

- c. Lack of related technological infrastructure to provide support to investors off-site, such as laptops, internet, etc., is also a significant challenge.

- 3. **Limited problem-solving and decision-making capability of staff:** Due to the burdensome and unclear procedures coupled with the limited staff capability to problem-solve, management teams across government agencies are overloaded leading to delays in decision and interruption in day-to-day operations of businesses.<sup>19</sup>

Ideas and possible recommendations for addressing these challenges are provided in section 3.

## 2.3 The views of business

This section discusses the views of businesses on the measures taken by the Ethiopian and Djibouti governments. It relies on a general survey conducted by PACCI in 42 African countries and a specific survey on Ethiopian firms undertaken by the World Bank on the impacts of COVID-19.

### 2.3.1 Business views as expressed in two surveys

#### PACCI Perception Survey

The survey by PACCI<sup>20</sup> was conducted in May 2020 and covered 42 countries in Africa.

The survey indicated that 82 percent of business leaders expect COVID-19 to produce a serious recession in their market area with only 9 percent not expecting to see an immediate impact. The survey also showed that businesses are concerned about surviving the crisis, with 70 percent of respondents saying more than a quarter of small businesses will be at greater risk of closing permanently if the crisis persists for three more months – which is now the case. Despite the fear of closure of small businesses, 74 percent of the respondents still stated that they are optimistic that most businesses will survive the pandemic.

In terms of measures taken by governments to tackle the pandemic the survey respondents were split. 44 percent of business leaders agreed that their government was doing enough while 39 percent said the measures were insufficient. There was a similar opinion on whether governments were doing enough to support businesses. 46 percent of businesses stated that government support was sufficient while 42 percent stated that the measures were insufficient. Most respondents also felt that businesses were doing enough to tackle COVID-19 with 68 percent agreeing with this statement.

The survey also surveyed the impact on businesses. 45 percent of surveyed businesses indicated that they had faced a significant slowdown in business turnover, with a further 27 percent stating they had experienced a low impact on their business. The respondents were of the opinion that SMEs would face a greater impact, with 43 percent anticipating a severe negative impact and another 29 percent anticipating a moderate impact.

In terms of affected sectors, 40 percent of respondents believed that exporting industries (including

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<sup>19</sup> Interview with the Ethiopian Investment Commission and Ministry of Trade and Industry Director and Experts.

<sup>20</sup> Perception Survey: Impact of Covid-19 on Business in Africa; Pan African Chamber of Commerce and Industry; May 2020.

services) were most likely to be affected. 36 percent felt that services industries were most likely to be affected with 24 percent stating that goods sectors were most likely to be affected.

The survey report forwarded the following recommendations on the basis of the survey findings.

1. The first recommendation is for governments to set up a central information system to publish actions relating to business and industry programs and resources should be provided to chambers of commerce and local economic development organizations as integral players to sustain small businesses and future recovery.
2. The second recommendation is that governments should take rapid measures to help businesses sustain themselves and develop these plans in collaboration with private sector representatives.
3. Third, and particularly important for the purposes of the present paper, governments should forward policies that provide flexibility and options for businesses such as applying innovation and technological advances removing unnecessary regulations to get permits, e-tax, e-license and e-payment, and trade facilitation measures.
4. Fourth, governments policies and measures should aim to maintain relationship between workers and employers, lenders and borrowers, producers and consumers, to avoid financial disruption.

### Results of the World Bank Firm Survey

The World Bank conducted three telephone surveys<sup>21</sup> on the effects of COVID-19 on Ethiopian firms, covering selected firms from Addis Ababa and three other cities. The first-round survey covered the period April 1- May 4, the second round May 6 – 27, and the third round May 8 – June 18.

The survey covered 650 firms in the first round, 550 in the second round, and 513 in the third one. The survey sample was designed by dividing firms according to their size into micro, small and large and by classifying these firms between “industry” and “services”. In terms of geographic coverage, the survey covered Addis Ababa, Mekelle, Adama, Bahir Dar and Hawassa.

In the first round survey, 42 percent of responding businesses had ceased operations, with 37 percent having had no revenue. The proportion of businesses that were closed during the second round survey decreased to 29 percent with the figure showing only a slight decrease to 27 percent in the third round survey. 17 percent of the surveyed firms have remained closed during the full period of all three surveys.

In all three rounds of the survey, businesses reported that the pandemic had resulted in a substantial decrease in demand for their services and products. This had a corresponding effect on revenues where 37 percent of businesses reported no revenue for a full month in the first round, with the figure increasing to 40 percent in the second round.

In terms of employment, the surveyed businesses reported minimal lay-offs during all three periods. However, the report postulates that this could be underreported because lay-offs are prohibited unless under the strict requirements of the COVID-19 response protocol issued by the Ministry of Labour and Social Affairs.

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<sup>21</sup> Phone Survey Data: Monitoring COVID-19 Impact on Firms and Households in Ethiopia; World Bank, 2020, <https://www.worldbank.org/en/country/ethiopia/brief/phone-survey-data-monitoring-covid-19-impact-on-firms-and-households-in-ethiopia>, last accessed on July 29, 2020.

The businesses indicated that the three most relevant measures to be taken to alleviate their problems are waiving tax payments, measures to subsidise operational costs and wages, and loan restructuring and debt relief. Waiving tax payments was the highest measure identified in all three rounds, with covering operational costs and loan restructuring and debt relief, second and third respectively. In the third round survey more businesses have indicated provision of working capital on preferential conditions would assist them to cope with the cash flow problems they are facing.

### **2.3.2 Business views and support provided**

Examining the measures taken by the government in light of the concerns raised by business in the two surveys shows that the Ethiopian government is availing considerable resources to support businesses overcome the slow down caused by COVID-19. Although most of the support is geared towards exporting companies, tax relief measures cover all businesses. The surveys indicate that service providers are equally (if not more) affected as manufacturing ones, and specific measures geared towards such businesses will be important to sustain them through the crisis.

While businesses are opening up gradually, their revenues have stayed low, which has resulted in greater financial difficulties. The government has attempted to address this by availing additional liquidity to banks. The fact that the pandemic is not expected to be controlled in a short period will exacerbate this situation further. Continued support is therefore necessary to ensure that businesses are able to survive.

Although the support provided by the Government to exporting businesses has been commendable, notably also in relation to ensuring the availability of (air) transport, keeping transport costs low and enhancing trade facilitation through an expanded and enhanced use of technology, it must be ensured that these measures are taken in a regionally coordinated way, and are complemented by further policy and structural changes. This is further discussed in the next section.

## **3 COVID-19 AND TRADE ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR: THE RESPONSE NEEDED**

The Ethiopia-Djibouti border agencies, like others in the world, are facing increased challenges as a result of the COVID-19 pandemic. The key challenge facing these agencies in the context of the pandemic is how to ensure continued import, export and transit of goods between the two countries while safeguarding public health. Following the outbreak of the pandemic, the use of trade facilitation tools has become key to support border agencies ensure uninterrupted movement of goods while safeguarding public health. Ethiopia and Djibouti can capitalize on trade facilitation reforms not only to navigate these challenging times but also provide the foundation for economic recovery.

### **3.1 General trade policy/trade facilitation responses**

The world continues to grapple with challenges posed by the COVID-19 pandemic not only in terms of public health protection but also the continuation of trade. While a number of countries have imposed temporary restrictions on trade especially on such items as personal protection equipment (PPE) and critical food products using trade policy tools such as export bans, there appears to be a consensus that trade plays a key role both in addressing the pandemic in the short

term and to lay the foundation for the post-pandemic recovery.<sup>22</sup> Both Ethiopia and Djibouti need to recognize that the continuation of trade even at the height of the pandemic is to their advantage. The two countries need to keep trade flowing, both to ensure the supply of essential products and to facilitate economic recovery from the pandemic. The measures taken, which are aimed at ensuring continued trade along the Ethiopia-Djibouti corridor (Table 1), show that the two governments are working in line with this requirement. The measures taken by the two countries have largely been complementary to each other. The two countries have attempted to limit the impact of the restrictive measures, in particular, on crossborder movement of goods between the two countries. The two countries have also allowed customs and other offices necessary for trade to continue to operate. Therefore, the measures taken by the two countries have been geared towards addressing their common concern of COVID-19 while still allowing the movement of goods between the two countries. Although some problems arose at the beginning of the pandemic, the two countries have resolved them through discussions.

The other trade policy issue to be considered, which is related to the first one, is to understand that introducing new restrictions on trade is generally counterproductive. It is important to ensure that the market will supply essentials, imports will not face obstacles such as additional tariffs and taxes as well as non-tariff measures while ensuring that imports do not pose health risks. Putting as little obstacle to trade as possible even at the time of health crisis is critical to combat the impact of the crisis. Rather than imposing trade barriers, the two countries need to provide a range of incentives for their business communities in particular the small and medium enterprises (SMEs) who are likely to go out of business because of the pandemic. This includes the waiver of relief consignments from any export duties or taxes, reduction of service charges, extension/reschedule of loan payments, access to interest-free loans etc. Indeed, a number of African countries have taken a range of measures to encourage and support business particularly the SMEs continue doing business.

The price competitiveness of Ethiopian exporters on regional and international markets will depend, *inter alia*, on improved logistics which ultimately requires increased expenditure on infrastructure. Poor infrastructure adds up to the costs of business. Particularly, landlocked countries with poor infrastructure such as Ethiopia tend to have high trade costs. Trade costs adversely affect all trade but are particularly important barriers to participate in the global value chains (GVCs) because the goods have to cross borders several times and thus there is an accumulation effect of trade costs. Geographic disadvantage facing a landlocked country like Ethiopia, especially at the time of health crisis can be offset, at least partially, by improved transportation and communication infrastructure and networks. While both Ethiopia and Djibouti have invested substantially to expand infrastructure such as ports, roads and rail transport, a lot remains to be done. Continued investment in physical infrastructure remains critical. As noted, however, investment in physical infrastructure will not be sufficient to address the logistics and transport related challenges in both countries. In addition, the soft infrastructures such as regulations, systems and processes should also be reviewed and reformed. Experience shows that while trade facilitation is highly dependent on infrastructural developments, it is not only about the physical infrastructure for trade. Studies indicate that about 75 percent of delays in trade is due to administrative hurdles – numerous customs procedures, tax procedures, clearances and cargo inspections – often before the containers reach the port.<sup>23</sup>

**Table 1: Key measures affecting trade taken by Djibouti and Ethiopia following COVID 19**

Djibouti	Ethiopia
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<sup>22</sup> World Bank (2020), “Trade Responses to the COVID-19 Crisis in Africa”, the World Bank Group Trade and COVID-19 Guidance Note, April 2020

<sup>23</sup> Simeon Djankov et al. (2016), “Trading on Time”, World Bank Policy Research Working Paper 3909.

<p><b>Restrictions on (cross-border) movement of persons</b></p> <ul style="list-style-type: none"> <li>▪ A nation-wide lockdown was put in place on 23 March 2020, except for essential services.</li> <li>▪ All commercial passenger flights suspended as well as train, boat and ship transport. Passenger flights suspended till 1st September 2020.</li> <li>▪ Djibouti-Ambouli International Airport reopened for commercial flights on 17 July 2020. Sea ports and border posts are open for travellers.</li> <li>▪ All passengers entering Djibouti are tested for COVID-19 upon arrival by Ministry of Health personnel. Travelers identified with the virus either go into isolation and treatment or depart Djibouti on the next flight without leaving the airport</li> <li>▪ Airlines may require passengers heading to Djibouti to show a negative COVID-19 test certificate before allowing them to board.</li> </ul> <p><b>Cross-border movement of goods/ trade facilitation</b></p> <ul style="list-style-type: none"> <li>▪ Cargo movement of goods and services has been permitted throughout.</li> <li>▪ Only commercial traffic to/from Ethiopia allowed through Galafi border. At Galafi, a health checkpoint has been set up to screen people for Covid-19.</li> <li>▪ Port communities have raised awareness among Ethiopian drivers on compliance with barrier measures and brochures in Amharic language were produced and disseminated to the latter.</li> <li>▪ The Djibouti Port and Corridor is still operational, and no case has been detected. An alerting protocol is implemented by the port communities.</li> <li>▪ Slight truck shortage experienced due to spike in demand and drivers' fear of COVID-19.</li> <li>▪ Djibouti Ports and Free Zones Authority (DPFZA) introduced online payment for gateway facility for the port community in order to limit physical visits to ports and free-zones premises and decrease online documentation completion time, enable savings on transportation while respecting government measures to contain the spread of the pandemic.</li> <li>▪ Djibouti made 82.5% reduction in port tariffs and granted Free Terminal Handling Charges for 60 days, from Thursday, April 16th, 2020 for Ethiopia export cargo to the world gated in Djibouti Ports.</li> </ul>	<p><b>Restrictions on (cross-border) movement of persons</b></p> <ul style="list-style-type: none"> <li>▪ All movements across land borders, except for the flow of cargo and essential goods, are suspended effective 23rd March</li> <li>▪ The mandatory 14-day quarantine of arrivals from abroad has been shortened to as few days as three. In addition, passengers from abroad who hold COVID-19 negative certificates are mandated to isolate themselves for only three days after giving samples and stay for 14 days at home before joining their communities</li> </ul> <p><b>Cross-border movement of goods/ trade facilitation</b></p> <ul style="list-style-type: none"> <li>▪ Ethiopian Airlines continues to operate concentrating mainly on cargo deliveries and scaled down passenger flights by about 90%</li> <li>▪ Border closure in effect but no restrictions on cargo movements from Djibouti to Ethiopia. Custom offices operating on both sides. However, shortage of trucks to Djibouti due to spike in demand</li> <li>▪ Djibouti Port operational for Ethiopian service. However, extended lockdown in Djibouti affecting operational hours for Shipping Lines and the storage space shortage in Djibouti port adds costs and time to the clearance of containers at the port.</li> <li>▪ Ethiopia-Sudan border is closed to all traffic.</li> <li>▪ Customs and Revenue authorities are facilitating continuity of business by implementing e-documents and e-payments and pre-arrival clearance procedures and exempting some required documents such as certificate of origin.</li> </ul> <p><b>Other support to exporters</b></p> <ul style="list-style-type: none"> <li>▪ Removal of the floor price for flower exports</li> <li>▪ Other support to businesses – see section 2.2.1 above.</li> </ul>
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Source: Compiled by the authors based on COMESA (2020): COVID 19 Measures in Member States, various editions (up to 21<sup>st</sup> ed.)

Inefficient trade procedures constitute a significant part of all trade-related costs. This situation underlines the importance of the WTO Trade Facilitation Agreement (TFA). Studies show that the full implementation of the TFA could reduce trade costs by an average of 14.3 percent and boost global trade by up to \$1 trillion per year, with the biggest gains in the poorest countries.<sup>24</sup> This underscores the importance of having the agreement ratified and fully implemented in both countries. Implementation of the TFA would speed up customs procedures and increase predictability which are all important considerations for companies involved in global value chain. It can also help SMEs participate in international trade due to simplification of cumbersome trade procedures and transparency. As of August 2020, 153 WTO Members, including Djibouti, ratified the TFA.<sup>25</sup> Ethiopia would first need to become a member of the WTO before being able to also ratify the TFA. The country is currently negotiating its accession to the WTO, which is expected to be completed in 2021. Ratification of the TFA should be a priority for Ethiopia.

Addressing the trade policy/ trade facilitation challenges at the time of the COVID-19 pandemic requires actions from each country individually and from both jointly. However, as the issues

<sup>24</sup> WTO: "Benefits of the TFTA". Available at [https://www.wto.org/english/tratop\\_e/tradfa\\_e/tradfa\\_e.htm](https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm)

<sup>25</sup> WTO: "Ratification List-TFA". Available at <https://www.tfafacility.org/ratifications>

involve the participation of more than one country, trade policy and trade facilitation issues could best be addressed through a sub-regional approach that makes the trading environments in both countries more efficient. Indeed, African Regional Economic Communities (RECs) such as COMESA and SADC have taken initiatives to facilitate trade in the face of the COVID-19 pandemic, among other things by adopting guidelines on logistic and transport within their economic communities. IGAD can play an important role in doing same in the IGAD region in general and the Ethiopia-Djibouti corridor in particular.

### 3.2 Specific trade facilitation responses

The pandemic has understandably created a dilemma as to how to balance trade facilitation with public health concerns. The two countries need to overcome the challenge of expediting imports, exports and transit while ensuring epidemic prevention and providing adequate customs clearance and compliance controls of goods and transport personnel. It is crucial for both countries to keep ports open and cross-border and transit trade flowing, while ensuring that border agencies can safely undertake all necessary controls. This includes ensuring that transport services, ports and border agencies not only remain operational, but are effectively strengthened to cope with the exceptional challenges they face. The two countries will benefit from increased efficiency of the Ethiopia-Djibouti corridor as the main trade route for both countries. The following are some of the key trade facilitation measures to be taken by the both countries (and IGAD). The trade facilitation measures are geared towards bringing efficiency in the overall performance along the Ethiopia-Djibouti corridor.

#### 3.2.1 Harmonization of customs rules and procedures and flexibility in documentation requirements

Facilitation of the smooth and rapid movement of persons and goods between the two countries' territories and in transit, through the simplification and harmonization of relevant documentation and procedures play a key role in improving the performance of the transit system. Harmonization is important particularly in relation to customs procedures. This requires harmonization of the customs management systems in the two countries, or at least the development of robust interfaces and protocols for automated data exchange: Djibouti Customs has implemented the ASYCUDA World customs management system, while Ethiopia has opted to implement a different customs management system.<sup>26</sup> The two countries can, for the smooth functioning of the corridor, consider harmonization of their customs management systems so that the systems can interact with each other. Harmonization of the two customs management systems will allow customs officers to move from the front line into the back office. This involves clearing agents entering data into the systems and customs officials checking this information through post-clearance audits and by using risk-assessment systems to improve efficiency.<sup>27</sup>

While harmonization of the customs management systems is critical to facilitate trade the two countries can take quick actions related to customs procedures to mitigate the adverse effects of the pandemic. One such measure which could be implemented immediately is allowing pre-clearance of goods. Such a system allows to pre-clear in Djibouti goods destined to Ethiopia which would save time and money for both business and customs officials. The two countries can facilitate continuity of business in the face of the pandemic by implementing e-documents and e-payments and pre-arrival clearance procedures and exempting some required documents such as certificate of origin.

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<sup>26</sup> See UNCTAD (2018), the Djibouti City-Addis Ababa Transit and Transport Corridor: Turning Diagnostics into Action.

<sup>27</sup> Ibid.



Traders could be allowed to lodge, submit, register or check the goods declaration and supporting documents before the arrival of the goods. Thus, border agencies have the opportunity to pre-assess, identify and prioritize import procedures. Customs can also be allowed to release goods prior to the submission of the goods declaration provided that the declarant will subsequently accomplish all formalities in respect of the clearance of goods.

To reduce the burden of compliance for traders, border agencies may accept paper or electronic copies of the required documentation while reserving the right to request the original document in case of doubts. Similarly, to avoid mishandling these flexible measures, customs agencies can bolster their risk management and post-clearance audit systems.

Traders, specially SMEs, may experience delays in receiving intermediate goods because of the pandemic, which may in turn causes delays in deliveries and final payments. The border agencies may be authorized to show flexibilities regarding payment of tariff, interest and guarantees.

### **3.2.2 Harmonization of transport regulation**

Transport regulation is another area that creates obstacle to the smooth movement of goods between the two countries. Harmonization of transport regulations may help mitigate this problem. In particular harmonization of regulations on vehicle standards and axle loads can facilitate movement of trucks between the two countries with little hinderance. The two countries can agree on a standard axle load, standard gross vehicle mass, and standard bridge formula for various vehicle types and axle combinations, with the standards to be applied throughout the corridor.

The existing agreement between the two countries governs freight transport services between the two countries by, inter alia, regulating the rights and obligations of the transporters and transitors and laying down a grievance handling mechanism. The agreement has also established an inter-ministerial committee to address any problem that may arise in the implementation of the agreement. However, the existing agreement is not aimed at the harmonization of transport regulation between the two countries.

### **3.2.3 Need for coordination: corridor management**

The Ethiopia-Djibouti corridor is a very busy corridor with multiple stakeholders involved as service providers and providers of infrastructure. However, the corridor operates without an established corridor management system.<sup>28</sup> There will be little improvement in transport and transit-service delivery without such a body coordination. So far, the two countries have attempted to coordinate operations of the corridor through an inter-ministrial committee comprising representatives of both countries. This needs to be upgraded to an institutionalised corridor management system.

The two countries need to put in place a coordinating body with the overall mandate of removal of all obstacles to the flow of trade and services along the Djibouti-Ethiopia Corridor. The coordination body will play an important role in facilitating trade and the movement of persons, vehicles, and goods through the improvement of infrastructure and logistics services.

The coordination body could be established based on good experiences from other corridors. For example, the governments of Burundi, Kenya, Rwanda, and Uganda negotiated the Northern Corridor Transit and Transport Agreement (NCTTA), which aims to promote an efficient, cost-

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<sup>28</sup> Ibid.

effective, and reliable transit and transport system. The NCTA established the Northern Corridor Transit and Transport Coordination Authority (NCTTCA), which has its secretariat in Mombasa, Kenya. Since its establishment, the NCTTCA has made significant improvement in the transport and transit system in the corridor (Box 1). It is high time that Ethiopia and Djibouti establish a similar coordinating body to streamline the transit and transport system in the corridor.

**Box 1: The Northern Corridor Transit and Transport Coordination Authority**

The Northern Corridor is a multimodal trade route linking the landlocked countries of the Great Lakes Region with the Kenyan maritime sea port of Mombasa. The Northern Corridor Transit and Transport Agreement (NCTTA) is a treaty coupled with 11 protocols signed in 1985 and revised in 2007 for regional cooperation with a view of facilitating interstate and transit trade, between the Member States of Burundi, Democratic Republic of Congo, Kenya, Rwanda, and Uganda. South Sudan acceded to the Agreement in 2012.

The NCTTA is a comprehensive agreement with defined 11 Protocols on strategic areas for regional cooperation relating to: Maritime Port Facilities, Routes and Facilities, Customs Controls and Operations, Documentation and Procedures, Transport of Goods by Rail, Transport of Goods by Road, Inland Waterways Transport of Goods, Transport by Pipeline, Multimodal Transport of Goods, Handling of Dangerous Goods and Measures of Facilitation for Transit Agencies, Traders and Employees.

The objectives of the agreement are based on 3 pillars of sustainable transport namely economic pillar aiming at promoting efficient and competitive transport; social pillar with the view to fostering an inclusive transport and the environmental pillar for a green freight transport.

The Northern Corridor Transit and Transport Coordination Authority (NCTTCA) was established and mandated by the Member States to oversee the implementation of the agreement, to monitor its performance and to transform the Northern trade route into an economic development corridor and making the corridor a seamless, efficient, smart and green Corridor. Below is the map of the Northern Corridor Member States.

Source: NCTTCA, <http://www.ttcanc.org/page.php?id=11>

### 3.2.4 Promoting transparency

In times of a rapidly changing trading environment, it is particularly important for governments to communicate clearly and ensure information is available to all actors and stakeholders and to keep online trade information updated and operational continuously.<sup>29</sup> Trade information systems should provide remote access to all forms and requirements and ensure that anyone interacting with a Government can find what is required of them online, without having to go to seek information physically. One of the most effective means of addressing this crisis is through timely and accurate information. Ethiopia and Djibouti can establish a dedicated page on a website, compiling available online repositories proving up-to-date trade-related information, including publishing a regularly updated list of countries that have adopted temporary export restriction measures for medical supplies in response to the COVID-19, as well as making available a useful list containing the HS classification reference for COVID-19 medical supplies. Besides, availability of information on the Internet through, for instance, trade portals, plays a crucial role in democratizing the dissemination of knowledge about the current situation and governments' responses to the COVID-19 crisis. Trade information portals increase predictability for stakeholders within and beyond the territory of the concerned country. In addition, this tool allows the accessibility of information in a cost-effective manner. For example, Kenya publishes information on COVID-19 trade-related emergency measures on *InfoTradeKenya Portal*, which provides step-by-step guides on export and import procedures.<sup>30</sup> The portal is updated on a regular basis by border regulatory agencies. Ethiopia and Djibouti need to establish similar platforms where traders and agencies involved in import-export can get timely and accurate information.

### 3.2.5 Increased use of technology

It has increasingly become apparent that embracing technology in various trade facilitation instruments, can unlock the situation and help accelerate the much-needed cross-border trade and

<sup>29</sup> WTO (2020), "Transparency- Why it Matters at Times of Crisis." Information Note, April 2020.

<sup>30</sup> See Info Trade Kenya: <https://infotradekenya.go.ke>



investment even during such difficulties.<sup>31</sup> Making full use of the information and communications technology (ICT) not only ensures the continuity of cross-border trade but also reduces the direct contact among people through remote operation. As physical contact between people needs to be minimized, electronic submissions and paperless transactions become ever more important. Although goods still need to be moved physically, clearance operations and the exchange of information should make use of existing electronic data interchange as much as possible. In particular, allowing traders to electronically submit applications for permits and licenses, and obtain the corresponding certificates from border regulating agencies can avoid physical interactions. It is also possible to keep trade moving without physical contact through enacting regulations to enable e-payments, e-signatures and e-contracts. Much of these technology-related issues could be handled by enhancing the application of the Single Window for international trade. Experiences from Rwanda shows the whole clearance process for imports, exports and transit is conducted in the Rwanda Electronic Single Window (RESW) which minimizes to a great extent any human intervention.<sup>32</sup> While Djibouti has invested heavily in technology in its ports and improved its service delivery system, the use of ICT in the border posts in the two countries remains limited. For example, although Ethiopia's Galafi border post has computerized systems at its entry and exit gates, at the cargo tracking office, at the scanner, and in the ERCA office where transit documents are issued, these computerized systems are not linked.<sup>33</sup> There is also frequent power interruption resulting in interruption of internet services where customs officers cannot issue transit documents and cannot scan cargo, which means that no trucks entering Ethiopia at Galafi can be processed.<sup>34</sup>

### 3.2.6 Reforming the logistics sector

Logistics is the most serious challenge facing the competitiveness of Ethiopian exports and manufacturers. The geographical challenges of being land-locked compounded by weak/inadequate transit-transport infrastructure, inefficient administrative and customs operations have an impact on the cost of trade (Box 2).

Reforming the logistics sector has been one of the Ethiopian government's priorities in recent times. "Ethiopia: a New Horizon of Hope", the reform roadmap of the government aims to undertake a range of economic reform measures with a view to boosting the economy. Among other things, it plans to cut import and export transit times in half by end of 2020 and reduce the average length of time imported goods spend in dry ports to only two days. The 750km railway connecting Addis Ababa with the port in Djibouti was launched in 2018 which has reduced a three-day journey down to 12 hours. Two years ago, the government signed a \$150m World Bank project to transform Mojo, a poorly equipped and heavily congested dry port near Addis Ababa that processes more than 70% of imported containers, into a state-of-the-art logistics facility.<sup>35</sup>

#### Box 2: Some figures on Ethiopian and corridor logistics

- To transport a 20ft container of garments from Ethiopia to Germany costs 247% more than from Vietnam and 72% more than from Bangladesh
- Goods take an average of 20-30 days to reach an Ethiopian customer from Djibouti port
- A 20ft container costs an average of \$2,660 to import from its source to Ethiopia which is probably one of the most expensive corridors in the world
- In 2016, Ethiopia scored 2.37 in the World Bank's Logistics Performance Index – significantly lower than neighboring Uganda, which is also landlocked
- In 2019, Ethiopia ranked 159th out of 190 in the World Bank's Doing Business index; Uganda came 116th.

<sup>31</sup> UNCTAD (2020), "COVID-19: a 10-Point Action Plan to Strengthen International Trade and Transport Facilitation in Times of Pandemic, Policy Brief No.79, April 2020.

<sup>32</sup> Rwanda E-single Window: <https://sw.gov.rw>

<sup>33</sup> UNCTAD (2018), note 26 above.

<sup>34</sup> Ibid.

<sup>35</sup> Ethiopia opens up budding logistics sector. <https://www.theafricareport.com/10463/ethiopia-opens-up-budding-logistics-sector>

Source: The africanreport (2019) and World Bank (2020)

Despite these and other measures taken by the government, logistics has continued to be a serious challenge facing the business community. The establishment of the ESLSE in 2012 as a merger between three state-owned entities was meant to rationalize and streamline the sector, but its continued monopoly on multi-modal transport remains a source of complain from traders. Manufacturers and exporters experience delayed deliveries, as ESLSE has only a limited number of vessels capable of calling at all ports of origin. The monopoly has also increased shipping costs by 30-50%.<sup>36</sup>

In September 2018, the Ethiopian Government announced shipping and logistics would be opened up to foreign investors for the first time, in the form of joint ventures with local firms. While the joint-venture model – which caps foreign ownership at 49% – may not be attractive to large multinationals, it is a move in the right direction. The Ethiopian private logistics firms are small with very limited capacity and experience, and the participation of the large companies with the resources, technology and experience will be critical to mitigate the logistical challenges.

Djibouti has a leading role in logistics on the continent and it has over time improved its logistics performance. In 2018 the country has moved up 44 places within two years in the global rankings for logistics performance: it is ranked 9<sup>th</sup> out of all African countries and 5<sup>th</sup> among the COMESA countries.<sup>37</sup> Djibouti has also continued to improve its performance in the World Bank Doing Business report. It has seen rise of 55 ranks in 2019 from its performance in 2018.<sup>38</sup> Djibouti was among the top-20 improvers in doing business reports both in 2019 and 2020.<sup>39</sup>

### **3.2.7 Improving the efficiency of the Djibouti port and the border posts**

Both Ethiopia and Djibouti have made significant investments in trade and transport/transit infrastructure, and the results of these investments are already impressive. More is being done. For example, in August 2019 the Ethiopian government and the AfDB signed a \$98 million grant agreement to help finance phase one of the Ethiopia–Djibouti Road Transport Corridor Project, the total cost of which is estimated at \$255 million. The project consists of the construction of the first 60 km of a 4-lane expressway section of the new 126 km stretch from Adama to Awash and includes the design of a one-stop border post at Dewele.<sup>40</sup>

However, high-quality infrastructure, while necessary, is not sufficient for achieving efficient logistics. If the benefits of upgraded port, rail, road, and internal container depot infrastructure are to be fully realized, logistics systems must be established that will allow users to maximize the facilities' potential.

Djibouti ports remain operational for Ethiopia's imports and exports. However, extended lockdown in Djibouti affected operational hours for shipping lines. In addition, space shortage has continued to be a challenge at the ports which adds costs and time to the clearance of containers at the port. Many countries take port related services as essential services which should not be affected by public health measures such as lockdowns and the same should be applicable in Djibouti and allow operation 24/7. Ethiopian traders also complain that the port is around 70%

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<sup>36</sup> Ibid.

<sup>37</sup> See <https://lpi.worldbank.org/domestic/performance/2018/C/DJI>

<sup>38</sup> See <https://www.worldbank.org/en/news/press-release/2018/10/31/doing-business-2019-djibouti-jumps-55-ranks>

<sup>39</sup> See <https://www.doingbusiness.org/en/reforms/top-20-reformers-in-db2020>

<sup>40</sup> See <https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-and-ethiopia-sign-agreement-first-phase-ethiopia-djibouti-transport-corridor-28552>.

more expensive than other ports in the region.<sup>41</sup> It is important that Djibouti ports remain competitive by reducing service charges. In the long-term, diversification of ports will be good for Ethiopia. Competition should bring down prices in Djibouti.

Galafi is the official border crossing from Djibouti to Ethiopia. One of the challenges at Galafi Djibouti has been lack of sufficient space. Particularly for trucks entering into Djibouti at Galafi, there is no room to take faulty trucks out of the line of traffic.<sup>42</sup> There are also no facilities for vehicle inspections. If a truck does need to be inspected, or if there is a problem with the paperwork, the truck remains in the queue until the issue is sorted out, and this causes what could be regarded as unnecessary delays to other goods in transit. An inspection zone and a parking could contribute to reduce these delays. This, rather than the customs clearance system, is the cause of the frequent and lengthy queues that occur there.<sup>43</sup> The in-lane booth is equipped with networked computers running the ASYCUDA World computerized customs management system, and so is linked to ASYCUDA World's central servers.<sup>44</sup>

One of the challenges facing Ethiopia Galafi post is frequent power interruption. When there is no power and when the internet is down, ERCA cannot issue transit documents and cannot scan cargo, which means that no trucks entering Ethiopia at Galafi can be processed.<sup>45</sup> This may easily develop into a long queue of trucks. In addition to the power related challenges, the computerized systems at Ethiopia's Galafi border post are not linked. Link to ASYCUDA World's central servers is crucial to facilitate the operation of the post.

One option to improve the operation of the border posts is to consider establishment of a one-stop border post. Such a one-stop post should be fully automated, with a weight-in-motion weighbridge and a digital platform weighbridge as a back-up; with automatic gates to filter traffic using an automated risk-management system; and with other efficient features.

### 3.2.8 Regional integration and trade facilitation – the role of IGAD

RECs can play a critical role in facilitating trade within their membership including by adopting regional agreements and the mutual recognition of certificates and other documents, for goods and for lorry drivers. A regional approach to trade facilitation can aim at a regional customs transit system with real-time sharing of customs information, digital tracking systems, cargo tracking systems, as well as the operational performance and management of corridors (Box 3).

African RECs such as COMESA and SADC have been trying to facilitate cross-border trade among their membership by putting in place regulations and guidelines on a number of issues in response to the COVID-19 crisis. COMESA has developed procedures and standards to reduce the spread of the disease and at same time minimize disruptions in the supply chain and to facilitate movement of goods and services across the region during the pandemic. Specifically, it has issued “Guidelines for Movement of Goods and Services across the COMESA region during the COVID-19 Pandemic.”

#### **Box 3: The EAC and logistics performance**

The East African Community regional integration process has seen the region register improvement in logistics performance which had stagnated in previous years, a World Bank report has said. The bi-annual report, ‘Connecting to Compete 2016: Trade Logistics in the Global Economy’, ranked 160 countries on their trade logistics performance as well as the region, identifying the challenges and

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<sup>41</sup> Ibid.

<sup>42</sup> See UNCTAD (2018), footnote 26 above.

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

opportunities.

The report noted that the move by the East African Community nations to integrate into one bloc had elevated the region's logistics performance, consequently making it more attractive for investments and reducing the cost of doing business. Among the most notable changes observed by the survey was the elimination of multiple barriers to trade and transport, such as cumbersome procedures.

The Northern Corridor was once known for multiple barriers to trade and transport, including lengthy dwell times at Mombasa port and cumbersome clearance procedures along the corridor. In 2012–13, the corridor countries started a series of reforms that significantly improved the logistics environment and drove down logistics costs.

One of the reforms was to introduce Single Customs Territory clearance procedures within the East African Community, including Burundi and Tanzania. This means final customs clearances for free circulation can be made already at the port of entry in Mombasa. The system has significantly reduced administrative burden and shortened the time required for customs formalities.

Source: World Bank (2016), "Connecting to Compete 2016: Trade Logistics in the Global Economy"

IGAD can also promote the development of regulation on cross-border freight transport between the two countries which could be expanded to other members. Such a regulation may among other things require the two countries to:

- Apply coordinated border management principles to manage border operations;
- Provide for pre-arrival processing of the goods declaration and release of goods upon arrival;
- Apply risk management to keep physical inspections to the necessary minimum and speed up customs clearance.
- Minimize the requirements of submission of documents in hard copy. Introduce facilitative measures with regard to the requirement to submit original documents or to stamp certain documents;
- Promote use of electronic payment platforms for revenue collections and encourage the use of electronic services when conducting business with customs; and
- Designate priority lanes for low risk consignments such as goods in transit and under electron cargo seals and goods designated as COVID-19 essentials.

#### Box 4: Outcomes of reforms at the Northern Corridor

Reforms such as a Single Customs Territory, a regional customs transit system, real-time sharing of customs information, digital tracking systems, introducing cargo tracking systems, building one-stop border posts; the development of the NC Transport Observatory and the NC Performance Dashboard - web based systems to monitor the corridor performance have resulted in:

- Dwell time in Mombasa port reduced from an average of 13 days in 2006 to 2–3 days in 2016.
- Time to move cargo from Mombasa to Kampala down from 18 days to 3 days and from Mombasa to Kigali from 21 days to 6 days.
- Border clearance times down from 24 hours to 6 hours at Malaba border crossing point between Kenya and Uganda.
- Cost of transport from Mombasa to: Nairobi -56%; Uganda (Kampala)- 26%; Rwanda (Kigali) -28%; DRC (GOMA): -38%; South Sudan (Juba) -37%; Burundi (Bujumbura) -23%.

Source: UNCTAD (2019) "Trade facilitation and transit in support of the 2030 Agenda for Sustainable Development" Multi-year Expert Meeting on Transport, Trade Logistics and Trade Facilitation, Seventh session, 7 to 9 May 2019.

Such measures would be fully in line with the recent Ministerial Statement on the Impact of COVID-19 on People on the Move in the IGAD Region, in which IGAD Members commit, among others, to "Promote integrated border management – firstly as a direct response to COVID-19 for a better whole-of-government approach but also for a more long-term result noting the nexus to migration, trade, regional law enforcement and data exchange"<sup>46</sup>

A related area which is by nature regional and cross border is the trucking sector and implementation of transit regimes. IGAD can promote a sub-regional trucking and transit regime in which customs control is operated in an internationally harmonized manner. IGAD may

<sup>46</sup> Ministerial Statement on the Impact of COVID-19 on People on the Move in the IGAD Region, 02 September 2020, available at: <https://igad.int/press-release/2503-ministerial-statement-on-the-impact-of-covid-19-on-people-on-the-move-in-the-igad-region>.

consider using a regional cargo tracking system such as the one in COMESA. Such a cargo tracking system would be useful in many ways, including for monitoring customs compliance, monitoring compliance with vehicle standards (including safety and axle loads), and monitoring the logistical efficiency of the corridor.

### 3.3 Harnessing technical assistance – the role of development partners' support

Even before the current pandemic, Ethiopia and Djibouti were already confronted with challenges to undertake the necessary investments in transport infrastructure and services and trade facilitation reforms. Many of the proposed measures require investment in human, institutional and technological capacities and the two countries and IGAD should make effective use the available technical support by development partners based on a carefully planned and prioritized technical support plan.

Financial and technical support could comprise a wide range of measures. Some examples include:

- **Support for harmonization of customs rules and procedures** between Ethiopia and Djibouti, e.g. by developing robust interfaces between the customs management systems used by the two countries, or by developing harmonized declarations and documentation requirements;
- **Corridor management:** The need for better corridor management has been highlighted above. Financial support for the establishment of a Corridor Authority and associated bodies, such as a corridor transport observatory could be pivotal for bringing about this much needed change.
- **Support in uptake of technological interventions** to further enhance agency-business interfaces, thereby speeding up processes and reducing person-to-person interaction. Corresponding areas of support could include:
  - Assistance in the design of technological solutions (assessment of core business-facing services and potential technological intermediations; systems and hardware audits; development of design studies and technical specifications, etc.);
  - Financial support for procurement of required hard- and software;
  - Support in the development of the required (IT-)infrastructure;
  - Capacity building of key institutions and staff as well as users; etc.
- **Establishment of a corridor trade information portal.**
- **Support to IGAD in regional harmonization of transport rules and trade facilitation.**
- **Technical support for regulatory reforms of the logistics sector.**
- **Facilitation of communication and collaboration among key agencies relevant for trade development and facilitation, and for related public-private dialogue** both within IGAD member countries and at the regional level. Such support would be in line with the September 2020 IGAD Ministerial Declaration commitment to “Enhance inter-ministerial coordination and collaboration, including the involvement of other actors such as the private sector, social partners and civil societies”. It could take various forms, including:
  - Financial support for the organization of meetings;
  - Financial/technical support for the preparation of technical studies for enhanced coordination and collaboration;
  - Capacity building/training for agency and non-state actor staff;
  - Assessment of developed measures and support in alignment through engagement of key stakeholders;
  - Creation of a database of measures and all relevant documentations for implementation.

