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BUSINESS ENVIRONMENT AND REGULATORY FRAMEWORKS ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR

Prepared under the project "Improving Trade Facilitation Environment in the IGAD Region Through Knowledge Generation and Capacity Building"

bkp ECONOMIC ADVISORS

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FOREWORD

One key component of the project entitled Improving Trade Facilitation Environment in the IGAD Region Through Knowledge Generation and Capacity Building (ITFE) is to facilitate cross border trade and enhance the capacities of SMEs in respect of competitiveness and knowledge of trade facilitation issues along the Ethiopia-Djibouti trade corridor. Increased cross border trade between Ethiopia and Djibouti is widely viewed as beneficial to everyone who resides along the corridor. In this regard, PACCI has conducted three studies; (i) 'Trade Logistics and Facilitation along the Ethiopia-Djibouti Corridor', (ii) 'Business Environment and Regulatory Frameworks along the Ethiopia-Djibouti Corridor' and (iii) 'Capacity Assessment of Business Organizations along the Ethiopia-Djibouti Corridor'.

As a landlocked country, Ethiopia depends on different transportation routes to trade with the region and the rest of the world. One of the most significant routes for the country of 100 million people is the Ethio-Djibouti Corridor connecting to the port of Djibouti. The Ethio-Djibouti corridor accounts for moving 95% of imports and exports.

Despite efforts to improve the business environment, Ethiopia's trade performance is low while trade cost is high compared to other landlocked African countries. The three studies examine the current status of trade facilitation and logistics along the Ethio-Djibouti Corridor, including recommendations that enhance and expand SMEs growth and survival, aim to enhance the capacities of private businesses and business support associations as well as trade facilitation agencies to understand the key challenges of cross border trade.

The Pan African Chamber of Commerce and Industry (PACCI) is an independent, non-profit and non-partisan organization established in 2009 by the assembly of African National Chambers of Commerce and Industry to serve Africa's businesses through policy advocacy. In this regard, PACCI pushes for public policies that foster continental economic integration, competitiveness, and sustainable growth in Africa. PACCI offers its constituents a wide range of services including advocacy for the creation of the African Economic Community, capacity building for businesses and business policymakers, as well as creation of better opportunities for business networking.

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EXECUTIVE SUMMARY

1. The port of Djibouti and the Ethiopia-Djibouti corridor is vital to Ethiopia's international trade movement. The port handles approximately 98 percent of Ethiopia's foreign trade shipments. As such, the corridor is of vital importance to Ethiopia's trade activity and is also an important source of revenue for Djibouti. The intention to extend the corridor further to the west further escalates the corridor's importance for Members of the Intergovernmental Authority for Development (IGAD), particularly landlocked South Sudan and Uganda.

2. This report aims to identify the main business environment and regulatory challenges that negatively impact operations on the corridor and hamper further private investment.

3. The report utilizes two main tools in its analysis. First, the methodology involves a review of existing studies, reports and other relevant documents. This desk review is used to assess policies, strategies and plans as well as legislation relevant to the Ethiopia-Djibouti corridor. Previous studies conducted on the corridor were also utilized to identify challenges and examine these challenges under current circumstances. Second, the report utilizes information gathered through interviews with logistics operators and regulatory institutions.

4. Ethiopia and Djibouti have highlighted the importance of trade and logistics operations in their respective policy documents. Djibouti's main development policy direction is stipulated in Djibouti Vision 2035. One of the pillars of the Vision is increasing the countries regional integration. This is to be achieved through three strategies. One of these strategies is particularly pertinent to this report. The strategy aims to establish Djibouti as a regional economic, commercial and financial hub. This strategy is particularly directed towards Ethiopia and South Sudan and aims to make Djibouti a regional maritime outlet and services platform and involves the construction of ports, logistics and communication infrastructure.

5. On the Ethiopian side, the importance of improving transport and logistics operations is accorded priority in a number of policies and strategies. The country's overall development plan – Ethiopian 2030 – acknowledges the importance of logistics as a tool to increase economic development. The National Transport Policy acknowledges the importance of corridor development to improve the country's trade performance and support its economic development. It aims to improve corridor transport performance and execute an integrated corridor transport plan. This policy is further articulated in the Transport Sector Plan which provides specific strategies to achieve the goals stated in the transport policy. The National Logistics Strategy was developed specifically to tackle the challenges of the logistics sector in Ethiopia. It analyses the main challenges of the sector and proposes specific actions to overcome these challenges and bring the sector to a high performance level by 2028.

6. In Ethiopia, the logistics sector is overseen by the Ministry of Transport. The main operational functions in logistics rest with the Ethiopian Maritime Affairs Authority, with the Ethiopian Roads Authority and the Federal Transport Authority playing specific functions on road and transport matters. In Djibouti, the main counterparts are the General Directorate for Customs and Indirect Taxation and Djibouti Ports and Free Zones Authority. It should be noted that currently there is no bilateral institution established to oversee operations on the corridor.

7. The report identifies eight main regulatory issues that impact trade and investment along the corridor. These challenges can be classified into two broad categories. The first group involves regulatory restrictions or practices that are imposed on logistics services and operators. The second group consists of regulatory practices in other areas that have direct impact on logistic operations along the corridor. The majority of the challenges fall under the second category.

a. Restrictions on Private Multimodal Operators: Ethiopia introduced a system distinguishing between uni-modal and multimodal operations in 2007, with the intention of bringing about greater efficiency in logistics services. However, multimodal operations have been permitted only to the Ethiopian Shipping and Logistics Services Enterprise (ESLSE), a public enterprise. This has had significant implications on competitiveness in the sector. The Ethiopian Maritime Affairs Authority publicized a draft directive on licensing requirements for private operators but these conditions have been considered to be too onerous.

b. Restrictions on Foreign-Invested Logistics Operators: in 2018, foreign investment in the logistics sector (up to maximum of 49% stake) was permitted, and as a result foreign companies have established joint ventures with local companies. However, foreign-invested companies have not been able to obtain bonded warehouse permits from the Ethiopian Customs Commission. This in turn means that these companies are not able to provide the full range of services and are also at a competitive disadvantage to fully Ethiopian-owned businesses.
c. Financial Regulations on Import and Export Trade Activities: Import and export transactions are strictly regulated by the National Bank of Ethiopia, with each foreign exchange transaction requiring a bank permit. The NBE requires businesses to present proof of proper completion of foreign exchange transaction, and failure to provide such proof in the prescribed period results in businesses being barred from future foreign exchange transaction. The lack of consistent foreign currency supply results in long delays in importing goods and adversely impacts the working capital of businesses as they cannot properly plan and execute their business activities. The forex shortage also hampers logistics services as they are often unable to promptly pay foreign service providers, causing further delays and costs.
d. Customs Rules and Procedures: The Djibouti and Ethiopian customs systems are not properly interfaced. Imports are declared on Djibouti's customs system but this is not accessible to Ethiopian customs and goods have to be re-declared at entry into Ethiopia. This causes additional processing time that could be avoided by interfacing the two systems.
e. Lacking trade facilitation: Ethiopia's customs law stipulates three trade facilitation measures that are inadequately utilized. These are the risk management system, the Authorized Economic Operator (AEO) scheme and advance ruling provisions. The current utilization of the risk management system results in about 95% of imports to be classified as high risk – red – and hence subject to physical inspections. This has a detrimental impact on customs clearance times and associated costs. The ECC also seldom makes use advance rulings which allows importers (and exporters where applicable) to get a level of certainty on the duties and taxes that are applicable. The third mechanism that has not been fully utilized is the AEO scheme. The AEO designation is assigned to trusted businesses that import and/or export large volume of goods where they are automatically cleared through customs and are verified through post-clearance audits.
f. Business Licensing Regulations and Requirements: Ethiopian rules treat importing (with some exceptions for input imports) and exporting as separate business activities, and hence they require separate licenses. There is an additional requirement to present certificates of competence from regulatory agencies for certain imports and exports, requiring additional time and cost. It should however should be noted that the government has undertaken reforms to simplify licensing requirements and processes. This has reduced the processing time and cost to businesses. The launch of the Online Trade Registration and Licensing System (OTRLS) in early 2021 is also expected to result in further efficiencies in business registration and licensing.
g. Accessibility and Transparency of Directives and Administrative Decisions: Previously, there were no rules governing the drafting, adoption and implementation of directives. There was also no mandatory requirement to make directives publicly accessible. As a result businesses often discovered application of new rules after the adoption of these rules. The

Ethiopian government has introduced the Administrative Procedure Code which stipulates conditions on the drafting and approval of directives as well as laying down administrative decisions appeals procedures. The application of this law is expected to bring about much greater transparency to directives and accountability of administrative decisions.

h. Implementation of Ethiopia-Djibouti Agreements and Coordination: Ethiopia and Djibouti have concluded five agreements relating to road transport, port utilization, transit, rail and multimodal operations. Four of the agreements have set up at least one joint body to oversee the implementation of the agreements and resolve disputes that may arise in the course of the implementation of the agreements. The absence of a single agency that is charged with overseeing the various agreements between Ethiopia and Djibouti impacts the efficiency of implementing the agreements to further streamline activities on the corridor. The substantial investments made by Djibouti and Ethiopia along the corridor will not on their own bring about logistics efficiency – the activities of the various stakeholders involved on the corridor need to be coordinated.

8. The identified challenges require a number of actions: First, the Ethiopian and Djibouti governments should consider setting up a joint corridor management body to administer the corridor and coordinate between the various agencies in both countries involved in operations on the corridor.

9. Second, the Ethiopian government should step up efforts to bring more competition to the logistics sector by stepping up the process of opening up multimodal operations to private operators. The current challenges faced by foreign-invested logistics operators should also be addressed.

10. Third, the Ethiopian government should evaluate current financial laws and regulations with a view to providing better access to foreign exchange and also reviewing the strict licensing and clearance requirements imposed on trading businesses. It should also examine the proper application of mechanisms stipulated in the customs law with a view to improving trade facilitation and improving efficiency in the clearance of goods.

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ABBREVIATIONS

AEC	African Economic Community
AEO	Authorised Economic Operator
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
COMESA	Common Market for Eastern and Southern Africa
DPFZA	Djibouti Ports and Free Zones Authority
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EAG	Ethiopian Attorney General
ECAE	Ethiopian Conformity Assessment Enterprise
ECC	Ethiopian Customs Commission
EMAA	Ethiopian Maritime Affairs Authority
ERA	Ethiopian Roads Authority
ERCA	Ethiopian Revenues and Customs Authority
ESLSE	Ethiopian Shipping and Logistics Service Enterprise
eSW	Electronic Single Window
ETB	Ethiopian Birr
EU	European Union
FTA	Federal Transport Authority
GTP	Growth and Transformation Plan
HoAI	Horn of Africa Initiative
ICT	Information and Communication Technologies
IGAD	Intergovernmental Authority for Development
LPI	Logistics Performance Index
MoA	Ministry of Agriculture
MoR	Ministry of Revenues
MoTI	Ministry of Trade and Industry
MoTR	Ministry of Transport
NBE	National Bank of Ethiopia
NLS	National Logistics Strategy
OTRLS	Online Trade Registration and Licensing System
REC	Regional Economic Community
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WTO	World Trade Organisation

1 INTRODUCTION

Ethiopia relies on the port of Djibouti and the Ethiopia-Djibouti trade corridor to move almost all of its import and export shipments. The port handles approximately 98 percent of Ethiopia's foreign trade shipments. As such, the corridor is of vital importance to Ethiopia's trade activity and is also an important source of revenue for Djibouti. The importance of the corridor has been highlighted by several efforts to improve logistic operations in the sector. With an extension of the corridor further to the west, it also becomes increasingly important for other Members of the Intergovernmental Authority for Development (IGAD), notably South Sudan and Uganda.

However, a host of regulatory factors impact the efficiency of services on the corridor and impacts private investment in the logistics sector. This report aims to identify the main business environment and regulatory challenges that negatively impact operations on the corridor and hamper further private investment.

The report is organized as follows: Section 2 reviews the main policies, strategies and plans in Ethiopia and Djibouti that constitute the regulatory basis for trade and transport along the corridor. Section 3 introduces the main relevant regulatory institutions in Ethiopia and Djibouti. Section 4 identifies and analyses the regulatory challenges impacting on trade and transport along the corridor. Section 5 presents conclusions and recommendations.

The report utilizes two main tools in its analysis. First, the methodology involves a review of existing studies, reports and other relevant documents. This desk review is used to assess policies, strategies and plans as well as legislation relevant to the Ethiopia-Djibouti corridor. Previous studies conducted on the corridor were also utilized to identify challenges and examine these challenges under current circumstances. Second, the report utilizes information gathered through interviews with logistics operators and regulatory institutions.

2 MAIN POLICIES, STRATEGIES AND PLANS

2.1 Djibouti – Djibouti Vision 2035

The main policy instrument that sets out Djibouti's development in the coming years is Djibouti Vision 2035. The Vision was launched in 2014 with the aim of building the country's future.

The Vision is based on the following five pillars:

- Peace and national unity - Strengthening unity, peace and solidarity
- Good governance - Reinforcing good governance and democracy
- Economic diversification - Promoting competitive and healthy economic growth
- Investing in human capital - Building a hardworking, healthy and educated workforce
- Regional integration – Increasing trade and commerce with regional partners

The last pillar aims to increase Djibouti's role in regional integration by implementing three strategies.

The first strategy is developing a commercial integration and services platform in the sub-region. It aims to create a free trade agreement among countries in the region including Ethiopia, South Sudan, Somalia/Somaliland, Eritrea and even potentially including other land-locked countries in the broader region including DRC and Chad. In conjunction with this, the strategy aims to increase the integration of Djibouti in existing regional integration blocks. These include IGAD, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC). As the African Continental Free Trade Area (AfCFTA) did not exist at the time when the strategy was developed, it can be assumed that the strategy would now also guide Djibouti's trade liberalization policies in the AfCFTA context; Djibouti ratified the AfCFTA Agreement in February 2019.

The second strategy is to establish Djibouti as a regional economic, commercial and financial hub. This strategy is particularly directed towards Ethiopia and South Sudan and aims to make Djibouti a regional maritime outlet and services platform. It plans to undertake the construction of five new ports, containers terminals, free zones, pipelines, roads and railways, optic fiber, in order to promote and facilitate exports, international and regional trade. It also envisions a Djibouti-Ethiopia-South Sudan railway to further regional integration of the three countries.

The third strategy is to reinforce Djibouti's international cooperation by increasing its participation on bilateral, regional and multilateral levels.

2.2 Ethiopia

There are three relevant policy documents relevant to overall economic development and specifically to logistics services. These are Ethiopia 2030 – the 10 year economic development plan, the Ten Year Transport Sector Plan, and the National Logistics Strategy.

2.2.1 Ethiopia 2030

The Ethiopian government launched the 10 year economic development – Ethiopia 2030 – in March 2021. The plan consists the following six major strategic pillars:

- Ensuring quality growth;
- Improving productivity and competitiveness;
- Undertaking institutional transformation;
- Ensuring private sector's leadership in the economy;
- Ensuring equitable participation of women and youth in economic and social sectors;
- Building climate resilient green economy.

The plan acknowledges the importance of logistics as a tool to increase economic development.

2.2.2 National Transport Policy

The National Transport Policy was launched by the Ministry of Transport in March 2020. It is a general policy instrument that guides the transport sector of the country. The Policy has the following three general objectives:

- Ensuring that the transport sector competently contributes to enhance the overall economic development and social interaction;
- Making the transport sector convenient, efficient, safe and accident free, Information Technology-supported, reliable and accessible; and
- Ensuring an equitable and efficient transport infrastructure and services operation, by guaranteeing the strategic, economic and social benefit for Ethiopia.

The policy acknowledges the importance of corridor development to improve the country's trade performance and support its economic development. It aims to improve corridor transport performance and execute an integrated corridor transport plan.

2.2.3 Transport Sector Plan

The Ministry of Transport developed a ten-year plan covering the period 2020-2030. The Plan firstly acknowledges the underperformance of the logistics sector in the country compared to the targets set under the Growth and Transformation Plan (GTP) II covering the five years from 2015-2020. These included high port dwell times, low utilization of multimodal services, low domestic export containerization, inefficient and costly truck operations, involvement of multiple regulatory agencies and length of processing of exports and imports, as well as inadequate infrastructure as the main challenges of the sector.

It also discusses how the exclusion of certain logistics services from private investment and competition and lack of adequate monitoring of such services has resulted in higher costs to businesses.

With respect to logistic services, the plan intends to transform the logistics sector into an efficient and reliable one and raise the country's rank in the global logistics performance index (LPI) from 126th to 40th place.

The plan sets out the following main strategies to meet these objectives.

- Implementing the national logistics strategy;
- Implementing a seaport strategy;
- Creating and developing a corridor for the development and management system;
- Establishing an organization to guide implementation of maritime and logistics;

- Organizing freight transport service and operators in line with international standards;
- Opening up multimodal operations to private sector;
- Establishing and implementing last-mile logistics to provide rail and road transport to and from freight transport.

2.2.4 National Logistics Strategy

The National Logistics Strategy (NLS) was issued in September 2018 and focuses on developing Ethiopia's logistics sector. The Strategy was mainly developed by the Ethiopian Maritime Affairs Authority as it is the main authority overseeing logistics operations.

The strategy identifies six challenges impacting the logistics sector. These are:

- Problems in the trade and finance system;
- Excessive and cumbersome transit and customs procedures;
- Poor quality and low competence of logistics services providers;
- Monopolistic practices in the logistics sector;
- Logistics infrastructure deficits and inefficient management; and
- Institutional and capacity gaps of service providers and regulators.

The NLS aims at tackling these challenges with a vision to "transform the country's logistics system to be the leading enabler for trade and investment in Africa by 2028."

2.3 Regional/Subregional Strategies

2.3.1 Intergovernmental Authority on Development Regional Strategy

IGAD was established in 1996 to replace the previous IGADD which focused on fighting drought and desertification in the region. IGAD focuses on food security and environmental protection, peace and security and humanitarian affairs, as well as economic cooperation and integration. It is one of eight regional economic communities (RECs) recognized by the AU as building blocks of the African Economic Community (AEC).

The ultimate vision of IGAD's current strategy[1] is "to be the premier Regional Economic Community (REC) for achieving peace and sustainable development." However, IGAD members countries have taken a cautious approach to regional integration. IGAD's regional strategy 2016-2020 recognizes this by setting strategies to "developing and harmonizing the policies, procedures and standards necessary to foster an increase in trade among the Member States".

IGAD is also undertaking a regional infrastructure master plan that aims establish priorities for regional infrastructure development covering transport, ICT, energy and trans-boundary water resources.

The ITFE project includes the preparation of a trade policy for IGAD covering 2021-2025. The trade policy is accompanied by two specific annexes dedicated to trade facilitation, of which

[1] IGAD Regional Strategy 2016-2020; IGAD is developing a strategy to cover the five years from 2021-2025 – see https://igad.int/executive-secretary/2594-igad-charting-its-way-for-2021-2025.

logistics is a component.

Annex 3 of the IGAD trade policy covers cooperation in all areas of customs administration. Annex 4 deals with the simplification and harmonization of international trade procedures and logistics to expedite importation, exportation and transit processes. Annex 4 thus aims to expedite the movement, clearance and release of goods including goods in transit across borders of IGAD members.

2.3.2 The Horn of Africa Initiative

The Horn of Africa Initiative (HoAI) was launched in October 2019 by Djibouti, Ethiopia, Eritrea, Kenya and Somalia. The Initative calls for an investment of USD 15.9 billion over ten years to support development of the region. HoAI was lauched with the support of the African Development Bank (AfDB), the European Union (EU) and the World Bank.

The Initiative is structured under four pillars consisting of regional infrastructure networks, trade and economic integration, building resilience, and strengthening human capital. The regional infrastructure networks pillar is further divided into work on economic corridors (one of which is the Djibouti corridor), regional energy trade, and a single digital market. The financing needs for the development of the economic corridors takes up USD 9 billion out of the HoAI's total USD 15.9 billion funding.

The Initative has identified upgrading the Djibouti corridor as one of its areas of focus. The intended intervention is to also upgrade the connection to the port of Assab in Eritrea and develop the route to South Sudan.

3 REGULATORY INSTITUTIONS ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR

3.1 Regulatory Institutions in Ethiopia

3.1.1 Ministry of Transport

The Ministry of Transport (MoTR) oversees the transport sector in Ethiopia. It develops policy for the transport sector and initiates laws and budget for the sector. MoTR's structure is such that specialized authorities are tasked with regulating specific areas under its mandate. The Ethiopian Roads Authority (ERA) regulates the road sector, the Federal Transport Authority (FTA) is charged with regulating road transport and rail services, while the Ethiopian Maritime Affairs Authority (EMAA) regulates maritime transport and logistic services.

3.1.2 Ethiopian Maritime Affairs Authority

The EMAA was set up in 2007 to oversee maritime and logistics services. Its regulatory functions include supervising maritime operations and services on the Ethiopia-Djibouti corridor as well as licensing logistics and maritime operators. It regulates vessels and verifies competence of seafarers and licenses multimodal operators in the country.

EMAA recently issued a long-awaited draft directive on the requirements to obtain a multi-modal operator's license. The directive has faced strong criticism from private logistic businesses for very high capital requirements and including conditions that are too cumbersome.[2] The details of the directive are discussed further below with respect to challenges of the logistics sector (see section 4).

EMAA has full authority over maritime issues but is not the main regulator in other aspects (road, rail, customs operations) of the Ethiopia-Djibouti corridor.

3.1.3 Ethiopian Roads Authority

The ERA regulates and administers roads falling under federal jurisdiction. It designs the country's national road network, oversees the design and construction of roads and administers roads. These include Ethiopia's international road connections, including the Ethiopia-Djibouti road corridor. It is also responsible for enforcing vehicle weight and load regulations on the roads it administers.

3.1.4 Federal Transport Authority

The FTA was set up as an overall regulatory authority over road, rail and maritime transport services. However, its functions relating to maritime services were transferred to EMAA, upon EMAA's establishment in 2007.

The FTA is accountable to the Ministry of Transport, from which it is operationally independent. It has extensive duties in relation to road transport. These include certifying and registering drivers and vehicles, regulating passenger and cargo transport services, and registering and licensing internal and cross-border transport service providers.

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[2] Logistics actors mock impractical draft directive – Capital Newspaper, published April 11, 2021, https://www.capitalethiopia.com/featured/logistics-actors-mock-impractical-draft-directive/

FTA has also been given authority to license train service providers, register trains, develop standards for train operations and verify competence of staff. However, there is currently no institutional framework to regulate rail under the FTA.

3.1.5 Ministry of Trade and Industry

The Ministry of Trade and Industry (MoTI) is in charge of regulating trade in the country, as well as international trade. It is tasked with issuing business licenses to all business activities and also has additional responsibility to control the quality of exports and imports. Hence, all businesses operating on the corridor have to obtain a license from MoTI. Freight forwarders, transporting businesses and customs agents are required to present certificates of competence from regulatory agencies – i.e. the Ethiopian Maritime Affairs Authority, the Federal Transport Authority, and the Ethiopian Customs Commission, as one of the requirements for a business license.

MoTI inspects export and import goods to verify compliance with corresponding Ethiopian standards. It undertakes this by taking samples using its own staff and having the Ethiopian Conformity Assessment Enterprise (ECAE) carryout the laboratory testing.

3.1.6 National Bank of Ethiopia

The National Bank of Ethiopia (NBE) is the central bank of Ethiopia and oversees the financial sector in the country. Ethiopia has adopted a strict foreign currency regulatory system since 1977, which requires commercial transactions involving foreign exchange to be permitted by banks. The NBE licensed such transactions until 1998, when it devolved this role to commercial banks. The NBE regulates these operations through directives it issues. All commercial imports and exports require a foreign exchange permit from the handling commercial bank.

The NBE also actively monitors forex transactions by requiring importers and exporters to submit proof of completion of pending transactions. It issues a monthly "delinquency list" containing businesses that have not cleared their transactions, which bars such businesses from engaging in import and export transactions until they clear the pending transactions with the NBE.

3.1.7 Ethiopian Customs Commission

The Ethiopian Customs Commission (ECC) was established as a separate customs agency in December 2018. Previously, the Ethiopian Revenues and Customs Authority (ERCA) oversaw customs and revenue operations in Ethiopia. ECC main tasks involve inspecting traded goods, assessing and collecting customs duties and other tasks, controlling restricted goods and prevention of contraband.

ECC also administers the Electronic Single Window launched in September 2020. It is accountable to the Ministry of Revenue.

3.1.8 Other Institutions

There are a number of other institutions that have regulatory mandates in the import and export of specific products or categories of products. These include the Ministry of Agriculture (MoA) for the import and export of agricultural products; the Ethiopian Food and Drugs Authority (EFDA) for the import and export of drugs, medical supplies and instruments, food supplements, baby food and cosmetics; the Ethiopia Radiation Protection Authority (ERPA) for the import of radiation emitting equipment and machinery and radioactive and nuclear materials; Information Network Security Agency (INSA) for import of communication and security equipment; the Ministry of Communication and Information Technology (MCIT) for telecommunication and network equipment imports; the Federal Transport Authority for vehicles; the Ministry of Mines (MoM) for mineral exports; and the Veterinary Drug and Feed Administration and Control Authority (VDFACA) for import of animal feeds and veterinary drugs.

3.2 Regulatory Institutions in Djibouti

3.2.1 General Directorate for Customs and Indirect Taxation

The General Directorate for Customs and Indirect Taxation ("Direction Générale des Douanes et Droits Indirects") administers customs operations in Djibouti. It operates as a department under the Ministry of Finance. It is vested with all customs duties including applying customs laws in relation to the movement of goods and other associated activities.

3.2.2 Djibouti Ports and Free Zones Authority

The Djibouti Ports and Free Zones Authority (DPFZA) was established in 2003 by presidential decree. It merged and took over the previously separate responsibilities of ports and free zones. It owns and operates ports and free zones in Djibouti. A number of private operators have entered into agreement with DPFZA to operate terminals and provide specific services in Djibouti ports. It serves both as regulator and administrator of free zones and ports.

3.3 Bilateral or Regional Institutions

There is no bilateral institution tasked with administering the Ethiopia-Djibouti corridor. The current relationship relies on bilateral agreements between the two countries. This issue is further discussed in section 4.8 below.

4 REGULATORY CHALLENGES IMPACTING TRADE AND INVESTMENT ON ETHIOPIA-DJIBOUTI CORRIDOR

A number of studies show that the Ethiopia-Djibouti corridor performance is quite inefficient, despite it being the main trade corridor for Ethiopia.[3] The NLS identified six causes for the issues that are seen in the logistics sector. These issues impact the efficiency of services along the corridor and increase the cost of doing business, in particular for trading businesses operating in Ethiopia.

The following sections examine eight main business environmental and regulatory framework challenges that directly impact logistics operation on the Ethiopia-Djibouti corridor.

4.1 Restrictions on Private Multimodal Operators

Ethiopia introduced the multimodal transport system in 2007[4] with the aim of streamlining logistics services. A multimodal transport system involves the use of a single operator to transport goods from origin to destination and involves the use of at least two modes of transport. All maritime imports and exports involve at least two modes – maritime transport, and road or rail transport – to reach their destination. The intention of introducing the multimodal transport system was to reduce the port dwelling and processing times by tasking a single multimodal operator to handle the full transport. The government also established the EMAA at the same time to regulate maritime transport and logistics operations.

The multimodal transport proclamation stipulated the rules governing multimodal operations but did not reserve this activity to a single operator. However, the NBE issued a directive requiring all commercial imports to be transported by the Ethiopian Shipping Lines (now the Ethiopian Shipping and Logistics Services Enterprises, ESLSE) effectively creating a monopoly for the ESLSE in multimodal operations. Coupled with the NBE requirement to use ESLSE services on imports requiring foreign currency bank permits (i.e. most commercial imports), ESLSE has enjoyed a dominant position in freight forwarding and shipping services.

The entry of private logistics operators into multimodal operations has been under discussion since the system's introduction but to date the ESLSE remains the sole multimodal operator. EMAA had previously tabled draft directives on entry and operation of multimodal operators but they have not been adopted.

A new directive drafted by EMAA on the entry of multimodal operators[5] requires a minimum capital of ETB 350 million and a land holding or lease of 5 hectares to be eligible. It also contains additional requirements regarding facilities, equipment, prior sector experience and human resources.

The opinion of operators in the sector has been negative towards the new plans[6]. Stakeholders in the sector state that the minimum capital and land requirement are too high and highly challenging

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[3] According to the transport sector prospective plan, 98.6 percent of Ethiopia's maritime imports and exports pass through Djibouti.
[4] The multimodal transport system was legislated under the Multimodal Transport of Goods Proclamation 548/2007 issued in September 2007.
[5] Draft directive on multimodal transport operator business license issuance and certificate of competence, available in Amharic on EMAA website - https://etmaritime.com/.
[6] This discussion is based on inputs from Ato Goitom Asfaw, Chief Operations Officer of Bollore Ethiopia and media reports of a stakeholder discussion held on the draft directive.

to meet. In addition, limiting the number of operators to five may not bring about the intended efficiency and lower prices by increasing competition.

Even considering the fact that joint ventures with foreign investment is now permitted, domestic firms will still need to raise 51% of the capital as the foreign investment is currently capped at 49%. Another area of concern is the requirement to provide multimodal transport services at rates pre-approved by EMAA. Operators have to submit their intended service rates to EMAA at least one month before applying these rates. Subsequent to EMAA's approval, the operators are then required to maintain these rates for six months. Such a condition will inevitably be a considerable burden on operators, in particular when considering the prevailing inflationary conditions and the constant devaluation of the Ethiopian Birr against most international currencies.

The draft directive also requires prospective companies to procure insurance bonds for potential damages to goods and guarantees for customs duties and associated charges. The issuance of unconditional guarantees has previously faced a number of obstacles from NBE. The conditions set out in the directive are considered onerous by logistics operators and it faced opposition from them during a discussion on the directive.[7]

The strict conditions set out in the draft directive and the intention to limit the number of operators are also inconsistent with the findings of the NLS that monopolistic conditions have led to increased prices in logistics services. The 10 year prospective plan of the Ministry of Transport also reinforces the government's plan to open up multimodal operations to private investment. However, the plan foresees issuing only up to five licenses to private multimodal operators.

EMAA and the Ministry of Transport should re-examine the draft directive with a view to addressing the numerous issues raised by stakeholders. The directive should meet regulatory and capacity requirements while at the same time ensuring that it does not serve as a *de facto* barrier to entry and competitive logistics services in the country.

4.2 Restrictions on Foreign-Invested Logistics Operators

Prior to 2018, logistics services were fully reserved to domestic investors. The Investment Board passed a decision in September 2018 to open up the sector to foreign investment of up to 49 percent. The Board reasoned that allowing the minority participation of foreign logistics businesses would "promote the transfer of technology and know-how to Ethiopia" and "improve the provision of high-end logistics services while local firms acquire world class knowledge, expertise, management, and systems by working jointly with globally reputed logistics service providers"[8].

As a result of this decision, three foreign logistics companies have formally entered the Ethiopian logistics market. DHL formed a joint venture with Ethiopian Airlines, and Bollore Transport and Logistics entered a partnership with a company called CLS Logistics to form Bollore Transport and Logistics Ethiopia. The two investments began operations in mid-2018 and early-2020, respectively. In December 2020, another multinational logistics company – CEVA Logistics – signed a joint venture agreement with the Ethiopian firm MACCFA to jointly form a logistics company.

[7] https://www.capitalethiopia.com/featured/logistics-actors-mock-impractical-draft-directive/, Capital Newspaper, published on April 11, 2021.
[8] Press release - The Ethiopian Investment Board delivered a decision relating to improving the logistics industry in Ethiopia; September 2018.

The Board's decision encompasses not only freight forwarding and shipping agency services but also consolidation and de-consolidation services.[9] The Investment Board decision has in fact opened up areas beyond packing, freight forwarding and shipping agency services and included bonded customs warehouses.

However, the ECC – which issues permits for bonded warehouses (that are needed in addition to business licenses issued by MoTI) – has not accepted applications from foreign-invested logistics service providers to establish bonded warehouse services). A foreign-invested company had planned to commence this service but has not been able to secure a customs clearing license due to ECC's strict interpretation of the customs clearing agents licensing regulations. The current practice thus prevents foreign-invested logistics service providers from expanding their services and leaves them to operate as freight forwarders and shipping agents.

The Customs Proclamation permits private businesses to set up customs warehouses.[10] One of the businesses that are expressly mentioned in the Proclamation are freight transport (logistics) businesses. However, a foreign-invested company interviewed for this report indicated that ECC has so far refused to issue a license for it to operate a customs warehouse. The reason given to the company is that customs clearing agency licenses are issued only to Ethiopians and as a foreign-invested business, it cannot obtain a customs clearing license.

The application of the Customs Clearing Agency Regulation[11] to deny a customs warehouse license is not consistent with the provisions of the Regulation. Furthermore, there is no such restriction under the Customs Warehouse Regulations issued in 1997.[12] The denial of customs warehouse licenses also directly contravenes the Ethiopian Investment Board's decision that permitted foreign investment of up to 49% in logistic services. The decision expressly includes the provision of bonded warehouse services in the activities permitted for foreign-invested logistics businesses.

The exclusion of foreign-invested logistics firms from establishing customs warehouse services is a serious obstacle to the operations of these businesses and prevents the sector from fully benefitting from the experience, expertise and capacity of these firms. Furthermore, it has a detrimental effect on the investment decision of these firms.

4.3 Financial Regulations on Import and Export Trade Activities

Ethiopia follows a strict foreign exchange licensing and control regime. This practice began in 1977 when the NBE issued regulations on foreign exchange control. The regulations stipulated detailed rules on activities that banks can undertake on foreign exchange transactions and required approval of all foreign exchange transactions by the NBE.

Subsequent to liberalization of the banking sector to private domestic investment, the government decided to transfer the foreign exchange transaction functions of the NBE to commercial banks in 1998. This was done through the directive issued for this purpose.[13] The directive has been updated on numerous occasions since 1998 but the core system introduced by the directive is still operational.

The directive delegated the functions of allocating foreign currency and approval of foreign

[9] http://www.investethiopia.gov.et/index.php/about-us/contact-us.html?id=692, last accessed on June 5, 2021.
[10] Article 175 of the Customs Proclamation 859 – 2014, December 2014.
[11] Customs Clearing Agents Regulation 108-2004, July 2004.
[12] Customs Warehouse License Issuance Regulations 24 – 1997, December 1997.
[13] Directive to Transfer NBE's Foreign Exchange Functions to Commercial Banks No. FXD/07/1998.

exchange transactions to commercial banks. The NBE regulates these operations through directives on the allocation priority of foreign exchange and a host of regulatory areas. It also monitors the proper execution of foreign currency transaction through a requirement for businesses to submit proof of receipt of goods in case of imports, and proof of deposit of authorized funds in the case of exports.

In addition to obtaining business licenses from MoTI, businesses wishing to import or export must register with the NBE in order to subsequently apply for permits to access foreign currency for their import or export transactions. The directive authorizes commercial banks to issue import and export bank permits following strict procedures and documentation requirements that have to be met. It delegates the work of processing documents and issuing the actual forex permit to commercial banks with the NBE playing a supervisory role. The forex permit must be obtained for each transaction the exporter wishes to conduct in foreign currency.

The main task of the NBE is to verify that forex transactions have been executed in accordance with the issued bank permits. Commercial banks are therefore required to submit forex transaction records to the NBE. Article 7 of the forex permit directive requires importers and exporters to confirm the proper execution of their respective transactions. Importers are required to submit proof of entry of goods into Ethiopia within 120 days from the date of issue of import permits. Importers submit copies of customs declarations that attest the goods covered under the import permit have been imported. Exporters, on the other hand, have to submit proof that the forex amount indicated in the export permit has been credited. The period given to submit such proof ranges from 30 up to 90 days from the date of the export permit.

The NBE implements a delinquency list system that prevents businesses engaging in further import and export activities prior to clearing existing transactions. Importers and exporters that fail to submit confirmation of the correct execution of the forex permits are put on a delinquency list by the NBE. The Bank distributes a list of businesses on this list monthly to commercial banks, directing commercial banks to exclude businesses on the delinquency list from obtaining further foreign currency bank permits. Affected businesses have to clear their "delinquent" status with the NBE; the NBE then removes them from the list and thereafter the businesses are eligible again to obtain foreign currency bank permit.

The unpredictable access to foreign currency creates substantial difficulties on businesses to plan and sequence their purchases. Businesses will try to use all the foreign currency they are permitted at once because they cannot guarantee that they will get the required foreign currency at intervals that match their production or sales cycles. This in turn often results in businesses depleting their finances and facing financial difficulty to pay required taxes and duties when the goods are finally imported.

The Diagnostic Trade Integration Study update[14] noted that importing business are forced to hold excessive inventory owing to unreliability of foreign exchange access. This is particularly challenging for small and medium sized enterprises. The report also notes that "insufficient working capital and inadequate payments facilities, especially in connection with imports of inputs, are among the main reasons for sub-optimal capacity utilization".

An additional constraint arises from the conditions to obtain overdraft authorizations, which are the typical form of financing working capital in Ethiopia. These require firms to hold an equivalent

[14] Diagnostic Trade Integration Study – Update, UNCTAD, June 2016

amount of cash balances in their working capital, the value of inventories and the amount of claims on clients not being taken into account.

This issue has been well documented as the main reason for extended delays in clearing cargo from customs. The general shortage of foreign currency is further exacerbated by NBE rules that require banks to issue forex permits on a first come, first served basis as long as the disbursement is in line with the forex allocation priority stipulations. This means that businesses that established business relationships with banks do not guarantee access to foreign currency. The fact that NBE rules do not permit the processing of multiple transactions at the same time also impacts ability of businesses to plan their foreign currency transactions in advance.

The forex shortage also hampers logistics services from promptly paying foreign service providers. This problem affects smaller private logistics businesses as they may not have high level of foreign currency earnings. However, the ESLSE has not been spared from such challenges either. The ESLSE CEO recently reported that the organization was facing difficulties in accessing its foreign currency deposits in Ethiopian banks. This was despite the fact that it had around USD 92 million forex balance in its accounts.[15]

4.4 Customs Rules and Procedures

The main observation in regard to customs processes is inefficient and uncoordinated transit and customs operations that result in longer processing time and ultimately additional costs. The first issue with regard to customs procedures starts when goods destined for Ethiopia are offloaded at Djibouti Port. Djibouti Customs issues a transit declaration for goods destined to Ethiopia. A logistics operator interviewed for this report disclosed that the Djibouti Customs holds goods from being cleared for transit for minor documentary errors. This for example could be a minor discrepancy in a description or a small difference in product volume.

This is done on Djibouti's own customs system with a paper declaration issued to accompany the goods. When the goods arrive at the Djibouti-Ethiopia border crossing, a new declaration has to be made on the Ethiopian customs system, and the Djibouti customs will close the declaration on its system. However, there is no interface between the two systems and details of the goods are entered manually on the Ethiopian customs side prior to the goods being released for domestic transit. An interface between the systems of the two customs agencies would lead to shorter processing of transit goods.

4.5 Low Utilization of Mechanisms under Customs Law

The Customs Proclamation contains a number of mechanisms aimed at streamlining customs clearance procedures and thereby reduce customs clearance times and associated costs. These are the risk management system, the Authorized Economic Operator (AEO) scheme and advance ruling provisions.

The risk management system classifies goods into four groups depending on the level of perceived risk the shipment poses. These are blue, green, yellow and red. The blue and green classification do not require further checks, but only 5% of imports fall under these categories.[16] About 40% of

[15] Foreign currency shortage backtracks ESLSE, https://www.capitalethiopia.com/capital/foreign-currency-shortage-backtracks-eslse/ , Capital Ethiopia Newspaper, May 10, 2021.
[16] Development of a National Logistics Strategy for Ethiopia, Volume 2: Diagnostic Analysis of the Current Logistics System, November 2013.

shipments fall under the yellow category, meaning they require documentary verification to determine their risk. The remaining 55% of imports are classified under the red category, requiring mandatory physical inspection of the shipments.

However, ECC staff routinely manually convert "yellow" goods into "red". This means that up to 95% of imports have to undergo physical inspections in addition to the documentary checks mandated under the yellow category designation. This results in much longer clearance periods as well as additional cost on importers. A proper utilization of the risk management system would lead to substantial reductions in customs clearance processes. This would enable ECC to process more shipments and focus its attention on high risk imports as well as benefit importers by reducing their cost and enabling them to clear their goods quickly.

The second mechanism that can be effectively used to create further efficiency in customs clearance is advance rulings. The mechanism allows importers (and exporters where applicable) to get a level of certainty on the duties and taxes that will be due and hence plan their activities accordingly. Greater application of this mechanism would create further efficiencies in customs clearance and also provide assurances to businesses.

The third mechanism that hasn't been fully utilized is the AEO scheme. The AEO designation is assigned to trusted businesses that import and/or export large volume of goods. Goods falling under the scheme are automatically cleared through customs and are verified through post-clearance audits.

Utilizing the three trade facilitation measures that already exist would lead to gains in operational efficiency for ECC and benefits the whole trade and logistics sector by reducing processing cost and time.

4.6 Business Licensing Regulations and Requirements

Ethiopian laws require all business activities to be undertaken after obtaining commercial registration and a business license from the relevant government body. The requirements to obtain commercial registration and business licensed are laid down in the Commercial Registration and Licensing Proclamation 980 of 2016.[17] Some provisions of the proclamation were amended under the Commercial Registration and Licensing (amendment) Proclamation 1150 of 2019. The provisions of the proclamation are further elaborated under a subsidiary regulation.[18]

Business formalization requirements are regulated by MoTI. The first step under the laws is obtaining commercial registration for the intended business. The law provides detailed rules on the procedures and documentation requirements to obtain commercial registration. Successful commercial registration is evidenced by a registration certificate.

Once registered, businesses are required to obtain business licenses corresponding to the commercial activities they intend to engage in. Business licenses are issued under one or more categories listed in the Ethiopian Business License Issuing Categories Directive, which establishes the Ethiopian Standards Industrial Classification (ESIC) system.[19] This regulation has been

[17] Commercial Registration and Licensing Proclamation 980 - 2016 (August 2016), as amended by Proclamation 1150 - 2019 (August 2019).

[18] Commercial Registration and Licensing Regulation 392 - 2016, October 2016

[19] The business license issuing categories were introduced by MoTI in January 2011. Under the former Directive, companies also had to comply with mandatory requirements to obtain certificates of competence for all business activities. This led to increased costs as all businesses were required to obtain certificates of competence from MoTI

significantly simplified recently as part of the Ease of Doing Business reforms being undertaken by the GoE. The current directive[20] issued by MoTI in June 2019 reduces the licensing categories from over 1,500 to 519 and reduces the number of business categories that still require certification of competence. The reforms were further complemented by the launch of the Online Trade Registration and Licensing System (OTRLS) which provides an online platform to process commercial registrations and business licenses.

Ethiopia's business laws treat export and import trade as distinct business activities (listed in the Categories under division 65 for import trade and 66 for export trade activities). This means that businesses have to obtain specific import and export trade licenses according to the types of goods they trade in, although there are exceptions for producers to import inputs. Some of the import and export categories entail the requirement to obtain certificate of competence from relevant regulatory authorities. Recent reforms in simplifying licensing requirements and the introduction of the certificate of competence have simplified licensing requirements to a certain extent and have led to quicker processing of licenses along with the OTRLS. However, the requirement to obtain import business licenses means that most imports are done through "import" business, thereby leading to increased costs and prices in the domestic market.

4.7 Accessibility and Transparency of Directives and Administrative Decisions

One of the challenges businesses face in Ethiopia is accessing directives issued by regulatory agencies. Previously, there were not rules governing the drafting, adoption and implementation of directives. There was also no mandatory requirement to make directives publicly accessible by publishing them.

This would often lead to businesses and other stakeholders finding out the application of new directives when they are implemented. In addition, regulatory agencies were not required to hold prior consultations on intended directive prior to their issuance.

The Ethiopian Attorney General (EAG) introduced the Administrative Procedure Code[21] with the aim of ensuring transparent administrative review procedures and uniform drafting, adoption and review procedures for directives issues by federal agencies. The law contains steps that need to be taken in drafting, adopting and reviewing directives. It requires all draft directives to be submitted to EAG for review and requires agencies to solicit comments and hold public consultations on proposed directives. It also requires all agencies to submit current directives and has received around 800 directives. These directives have been given sequential numbers by EAG and have been uploaded on its website.[22] The administrative procedure law also requires all directives to be drafted in English as well as Amharic (federal working language) and also to be published and digitally available to the public.

The law also contains a set of rules that introduce standing administrative decisions review procedures. They stipulate internal review procedures that are to be undertaken by administrative agencies and also include the grounds and procedures for judicial review of administrative decisions.

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or other regulatory agencies.

[20] Ethiopian Business Licensing Issuing Categories Directive No. 17/2011, June 2019.

[21] The Federal Administrative Procedure Proclamation 1183-2020, April 2020.

[22] The directives are available for download and viewing on http://legal.eag.gov.et:8080/.

The mechanism introduced under the law brings about needed transparency and accountability to the adoption and administration of directives and review of administrative decisions. The process now affords affected business to voice their opinions on draft directives before they are adopted and will also aid administrative agencies to collect inputs from affected stakeholders.

4.8 Implementation of Ethiopia-Djibouti Agreements and Coordination

Ethiopia and Djibouti have concluded agreements relating to various aspects of the Ethiopia-Djibouti corridor operations. There are currently five agreements in place governing road transport, port utilization, transit, rail and multimodal operations (Table 1).

Table 1: Bilateral Ethiopia-Djibouti Agreements affecting operation of the Ethiopia-Djibouti corridor

Agreement	Responsible agency	Joint body set up by agreement
Road transport services - 1994	Ethiopia – (Federal) Transport Authority; Djibouti – Road Transport Unit	None
Port utilization and transit cargo services – 2002	No single agency designated	• Joint Ministerial Committee - composed of ministers responsible for port, transit, transport, customs and related • Joint Follow up committee – to deal with technical and operational matters
Railway – 2012	Ethiopia – Ministry of Transport Djibouti – Ministry of Transport and Equipment	• Ethiopia – Djibouti Joint Railway Commission (EDJRC) – composed of ministries responsible for transport, foreign affairs, justice, and finance • It has political leadership, policy direction, resource mobilization and oversight responsibilities • Project Coordinating Committee – composed of CEOs of the railway organizations from the two countries, two project coordinators (one for each country), other personnel as needed • Technical and operational arm of the project
Multimodal transport system – 2010	No single agency designated	Joint Technical Follow up Committee – seven members comprising representatives of the two governments, chambers of commerce from both countries, L'Association des Transitaires de Djibouti (ATD), ESLSE and Port of Djibouti.
Customs transit protocol – 2008	No single agency designated	• Permanent Joint Committee – in charge of controlling and assessing implementation of agreement and solve disputes. • Ad hoc Technical Committee – in charge of harmonizing transit procedures, preparing appropriate forms and creating interface between Djibouti and Ethiopia customs software

Each of the agreements, with the exception of the 1994 road transport agreement, have set up at least one joint body to oversee the implementation of the agreements and resolve disputes that may arise in the course of the implementation of the agreements. The absence of a single agency that is charged with overseeing the various agreements between Ethiopia and Djibouti impacts the efficiency of implementing the agreements to further streamline activities on the corridor. On the Ethiopian side, EMAA is the agency tasked with coordinating activities on trade corridors but it does not have the regulatory authority to enforce stipulations under bilateral agreements.

The establishment of a corridor management agency was first proposed under the National

Logistics Strategy project.[23] The issue was raised again during the Diagnostic Trade Integration Study (DTIS) update that took place in 2016.[24] The DTIS update was followed by a report to implement the findings of update.[25]

The report noted that substantial investments made by Djibouti and Ethiopia along the corridor will not on their own bring about logistics efficiency. It found that the activities of the various stakeholders involved on the corridor need to be coordinated. Hence, the report recommended the establishment a corridor management agency to oversee operations on the corridor and presented the steps on setting up the institution.

However, this recommendation was not adopted in Ethiopia's national logistics strategy, which was adopted after the DTIS update and subsequent report were completed.

The corridor management agency would have to be created through a bilateral agreement between Ethiopia and Djibouti. This would give it a strong legal mandate to enforce its mandate. This is particularly important to ensure that the various regulatory agencies involved in specific activities along the corridor accept the authority of the agency and implement its decisions accordingly.

The UNCTAD report proposes a structure consisting three levels – council of ministers, executive committee, and technical committees. The council of ministers serves as the decision making body with the executive committee consisting of heads of agencies and departments responsible to regulate operations on the corridor and private sector associations. The technical committees are proposed to be comprised of technical experts from the same institutions.

An effective corridor management agency would help to resolve challenges that arise on the corridor and also serve as a bridge between the two countries. It would also help formalize relationships between regulatory agencies, service providers and business associations in the two countries. It would also ideally replace the various joint and technical committees established under the bilateral agreements discussed above with a single set-up that can address all issues that arise on the corridor.

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[23] The National Logistics Strategy Project was carried out in 2013 and 2014 and laid the technical foundation for the preparation of the National Logistics Strategy.
[24] Diagnostic Trade Integration Study Update, UNCTAD, June 2016.
[25] The Djibouti City – Addis Ababa Transit and Transport Corridor: Turning Diagnostics into Action, UNCTAD, 2018.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The performance of the logistics sector in Ethiopia and along the Ethiopia-Djibouti corridor has been hampered by a number of factors. A key finding relates to restrictions imposed on logistics service providers in Ethiopia. The restriction of foreign investment in logistics services and the creation of a de facto multimodal monopoly in the form of the ESLSE has hampered the growth of private domestic operators. The government determined the impact of these policies and opened logistics services to minority foreign investment, which brought in much needed capital and expertise to the country. However, continued restrictions on foreign-invested operators from providing bonded warehouse services have prevented them from broadening their services.

The reluctance to allow private multimodal operators has also been detrimental to the sector's competitiveness and growth. The ESLSE's multimodal monopoly effectively protects it from competition, leading to higher business costs for traders. Even though the Ethiopian government acknowledges the need to open multimodal operations to the private sector, the time it has taken so far also shows there is still reluctance to open up the sector to competition. Although opening up logistics services has attracted a few important international businesses, the lack of open competition and existing restrictions on foreign-invested logistics operations impact further investment in the sector.

The second main observation is the fact that regulatory agencies often operate in silos and implement rules and procedures without considering the impact of these rules and procedures on other activities. This is particularly demonstrated in Ethiopia's customs rules and procedures, which are solely designed to exert as much control as possible. Looking at the impact of such rules from the perspective of other stakeholders could potentially lead to developing less strict and less costly rules and procedures. A related factor here is inability or unwillingness of ECC to apply existing mechanisms that could bring significant decreases in customs clearance procedures. The refusal of ECC to issue certificates of competence to foreign-invested operators is another prime illustration of operating in a silo system.

The impact of financial regulations also has a serious impact on trading activities and logistics services along the corridor. The issues facing Ethiopia's financial services sector in general and foreign currency system in particular are deep-rooted and cannot be properly analyzed under this report. However, it should be noted that the constant foreign currency shortage and strict licensing requirements affect logistics operations.

The final issue relates to the consideration of establishing a bilateral corridor management institution. This issue had been raised in previous studies but has not progressed from the discussion table. The benefits of having such an agency is to serve as a single institution that serves as a bridge between the governments and various regulatory agencies of the two countries. An effective corridor management agency will be able to continually monitor activities on the corridor and enable timely interventions as required.

5.2 Recommendations

The following recommendations are presented on the basis of the findings of this report.

First, the Ethiopian and Djibouti governments should consider setting up a joint corridor management body to administer the corridor and coordinate between the various agencies in both countries involved in operations on the corridor. A properly mandated and functioning corridor management institution would provide timely interventions to address challenges arising on operations along the corridor.

Second, the Ethiopian government should step up efforts to bring more competition to the logistics sector by advancing the process of opening up multimodal operations to private operators. The current challenges faced by foreign-invested logistics operators should also be addressed to reap the benefits of opening up the sector to foreign investment. These steps should bring about greater efficiency and lower costs.

Third, the Ethiopian government should evaluate current financial sector law and regulations with a view to providing better access to foreign exchange and also reviewing the strict licensing and clearance requirements imposed on trading businesses. This will lead to a reduced cost of doing business, thereby translating to lower prices of goods and services.

Finally, the Ethiopian and Djibouti governments should increase the capacity of institutions and professionals involved in the trade and logistics sectors to resolve challenges. One such intervention is providing trainings that aim to increase the awareness of staff at such institutions on the challenges faced by trading businesses and logistics operators along the corridor. The next phase of this project will involve such an intervention which encompasses providing trainings on the findings of this and other technical reports prepared.