



**Pan African Chamber of  
Commerce and Industry**



# TRADE LOGISTICS AND FACILITATION ALONG THE ETHIOPIA-DJIBOUTI CORRIDOR

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

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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 modernization of trade facilitation and logistics plays a crucial role in improving the competitiveness of both the private sector and state-owned enterprises in relation to their global competitors. As a landlocked country, Ethiopia uses the Port of Djibouti as the main gateway for its international trade, and hence the importance of the Ethio-Djibouti corridor. In recent years, there have been significant investments in the logistics infrastructure in both Djibouti and Ethiopia including construction of dry ports in Ethiopia and upgrading ports in Djibouti. Although infrastructure investment is important, it is not sufficient to reduce overall logistics costs in an economy. A significant part of the cost and time savings will come from changes to the logistics system that reduce transit time on all modes of transport.
2. This study aims to assess features of trade facilitation and logistics from both the supply side (such as policies and institutions) as well as from the demand side (e.g. trading companies). The study addresses a number of issues. First, it assesses the progress regarding the implementation of trade-facilitation measures put in place in both Djibouti and Ethiopia. Second, it identifies gaps and missing links in the trade facilitation measures to enhance trade flows. Finally, it assesses the logistics performance of Djibouti-Ethiopia corridor that links Addis Ababa with the ports of Djibouti.
3. Despite efforts to improve the business environment, the performance of Ethiopia's international trade remains low due to a number of constraining factors from both the supply and demand sides. The cost of doing business in Ethiopia is high, as reflected by the low rank in ease of doing businesses. Ethiopia lags behind in some specific ease of doing business indicators such as starting a business, getting credit, trading across borders, and paying taxes. The country's overall rank is far below the Sub-Saharan African average ranking and well-performing peers such as Rwanda (World Bank, 2020). Ethiopia's rank in the Trading Across Border sub-index is very low, and this is related to burdensome customs clearance process and additional required imports and exports documentation. Time to clear exports in Ethiopia remains one of the highest in the region.
4. Ethiopia experiences high logistics costs which reduce the country's competitiveness compared with its competitors. Poor trade logistics tends to erode the benefits of lower labour cost and increases transaction costs, thereby adversely affecting competitiveness of private firms. The assessment identifies heavy documentary requirements, high levels of physical inspection, lack of coordination among border agencies coupled with low levels of automation and uncompetitive trade logistics sector are drivers of increased cost of doing business and delay of the shipment. Coordination failures undermine the efficiency of the trade logistics chain.
5. Outdated and overly bureaucratic border clearance processes imposed by customs and other agencies are now seen as posing greater barriers to trade than tariffs do. Cumbersome systems and procedures and poor infrastructure both increase transaction costs and lengthen delays to the clearance of imports, exports, and transit goods. Such costs and delays make a country less competitive—whether by imposing deadweight inefficiencies that effectively tax imports, or by adding costs that raise the price of exports. Inefficient border management deters foreign investment and creates opportunities for administrative corruption.
6. The main challenges include (i) reliance on paper documents in the exchange of official information between government agencies and the private sector, which is slow, unpredictable, and prone to errors and omissions; (ii) lack of real-time cargo tracking along the logistics chain; (iii) inefficient in-house business processing of information, which delays decision making and release of information/decisions; and (iv) lack of modern port management systems, especially in dry ports. ICT solutions to these problems, which are widely used and seen as the backbone of logistics in other countries, have yet to be broadly implemented. There is no integrated approach to ICT in logistics across stakeholders.

7. The use of different customs management systems (ASYCUDA++ for Djibouti and Electronic Customs Management System for Ethiopia) creates compatibility and coordination problems. In addition, working time differences at many cargo depots create harmonization challenges, leading to separate inspections of the same container. This could be addressed through border agency coordination which should include synchronized working hours, joint inspection procedures, and other procedures that affect the clearance process.

8. Lack of facilities and readiness to handle inbound and outbound railway traffic. Underinvestment in facilities and equipment, poor operational procedures and control, and lack of a yard management system are responsible for the excess time for truck turnarounds. For bulk imports, the key weakness is the lack of storage and handling facilities in Ethiopia. There is also a need to coordinate border management through information sharing, harmonization of procedures and close interagency cooperation.

9. Perceived barriers to trade related to the application and implementation of trade-related rules and regulations severely impacted both exporters and importers, with the former more affected than the latter. The good news is that these procedural obstacles are located in Ethiopia which provides an opportunity to address them through appropriate interventions in the domestic business environment. Given that procedures rather than regulations are the key obstacles to trade, this calls for mainstreaming and streamlining procedures related to NTMs that would offer scope for large gains.

10. Interventions and activities addressing the various obstacles can be clustered into five components:

- Regulatory reforms aiming at a clear, concise, transparent legal framework (Legal);
- Institutional development, private sector consultation, and inter-agency cooperation (Organization);
- Introduction and modernization of infrastructure for electronic processing of trade documents and related data exchange, including IT systems (Technology);
- Changes in business processes and procedures (Processes); and
- Capacity building of implementing managers and officers (People)

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## ABBREVIATIONS

AfCFTA	African Continental Free Trade Area	MoR	Ministry of Revenues
APZF	Djibouti Ports and Free Zones Authority	MoTI	Ministry of Trade and Industry
CSA	Central Statistical Agency	MoU	Memorandum of Understanding
DCT	Doraleh Container Terminal	MRI	Magnetic Resonance Imaging
ECC	Ethiopian Customs Commission	NBE	National Bank of Ethiopia
eCMS	Electronic Customs Management System	NFLS	National Freight Logistics Strategy
EMAA	Ethiopian Maritime Affairs Authority	NIPA	National Investment Promotion Agency (of Djibouti)
EPA	Economic Partnership Agreement	NTB	Non-Tariff Barrier
ERC	Ethiopian Railways Corporation	NTM	Non-Tariff Measure
ERCA	Ethiopian Revenue and Customs Authority	PAID	Port Autonome International de Djibouti
ESLSE	Ethiopian Shipping and Logistics Service Enterprise	POs	Procedural Obstacles
eSW	Electronic Single Window	RKC	Revised Kyoto Convention
ETB	Ethiopian Birr	RSDP	Road Sector Development Program
GDP	Gross Domestic Product	SDTV	Société Djiboutienne de Gestion du Terminal Vraquier
GVM	Gross Vehicle Mass	UN	United Nations
ICF	Investment Climate Facility	UNCTAD	United Nations Conference on Trade and Development
ICT	Information and Communication Technologies	UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
IFC	Investment Finance Corporation	USD	United States Dollar
ITC	International Trade Centre	WTO	World Trade Organisation
LPI	Logistics Performance Index		



# 1 INTRODUCTION

With about 100.8 million people in 2020 (CSA, 2013), Ethiopia is the most populous landlocked country in Africa. With a total land area of 1.13 million sq.km, Ethiopia shares borders with Eritrea, Somalia, Kenya, South Sudan, and Sudan. Ethiopia is administratively structured into regional states and city administrations.

Ethiopia is a least developed country with gross domestic product (GDP) per capita of USD 2,511 (Purchasing Power Parity, 2018), which ranks the country 164<sup>th</sup> globally. With a GDP of USD 253.1 billion (Purchasing Power Parity, 2020 est.), the country is the 8<sup>th</sup> largest economy in Africa, and 62<sup>nd</sup> worldwide (IMF, 2020).

Following the independence of Eritrea in 1993, Ethiopia became one of the most populous landlocked countries in the world. Aside from air transport, the country uses the main port of neighboring Djibouti for its ground-based international trade activities. A very small share of Ethiopia's external trade is conducted through other ports in the region, such as Port Sudan, Berbera or Mombasa. Given the recent peace agreement with Eritrea, Ethiopia is planning to resume accessing the Eritrean ports of Assab and Massawa for its international trade.

As a landlocked country, Ethiopia has been investing in infrastructure to encourage local and foreign companies to invest in the country. Infrastructural facilities range from new roads, water pipes and power and telecommunication lines to a new rail link between Addis Ababa and the Port of Djibouti. New industrial parks are also being built. Nevertheless, weak trade logistics have remained a constraint to the country's competitiveness and its participation in international trade. Ethiopia ranks 156 out of 190 economies in the "Trading across Borders" component of the 2020 Ease of Doing Business indicators, and ranked 126 out of 160 countries on the Logistics Performance Index (LPI) in 2016<sup>1</sup>—a deterioration compared with its ranking of 104 in 2014 (World Bank, 2020a). Trade, especially exports, is also constrained by a range of non-tariff measures (NTMs). A recent survey found that 96 percent of trading companies in Ethiopia report facing burdensome situations related to the application and implementation of trade-related rules and regulations (International Trade Centre, 2018). Exporters appear to be more affected than importers, with 90 percent of exporting companies reporting facing burdensome NTMs and 56 percent of importing companies reporting such problems.

As the country is not a member of the World Trade Organization (WTO), it is also not a member of the WTO Trade Facilitation Agreement.<sup>2</sup>

Thus, it appears that trade facilitation is needed to enhance Ethiopia's foreign trade performance. To contribute to this need, this study assesses features of Ethiopia's trade facilitation from both the supply side (such as policies and institutions) as well as from the demand side (e.g. trading companies).

The present report analyses the trade facilitation and trade logistics issues which affect trade along the Ethiopia-Djibouti transport corridor. Because Ethiopia is the main user of the corridor, the analysis in this report primarily concentrates on this country's trade performance, whereas the corridor's performance is assessed for Ethiopia and Djibouti. Section 2 reviews recent trends in

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<sup>1</sup> Ethiopia was not covered in the so far latest LPI, in 2018.

<sup>2</sup> Negotiations on Ethiopia's accession to the WTO started in 2003. Following a hiatus of several years, the process was resumed in 2020 and is now well advanced, with both bilateral and multilateral negotiations under way. At the same time, the actual accession will also depend on geopolitical considerations, and therefore the accession date, recently still targeted for 2021, is presently uncertain.



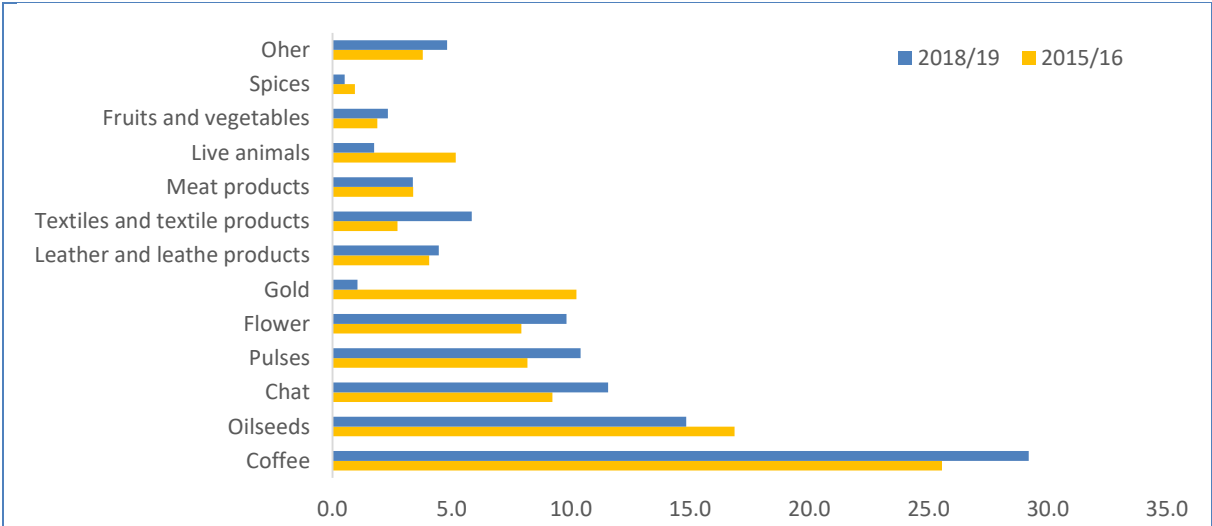
trade performance, also considering the impact of the COVID-19 pandemic. Section 3 introduces key concepts related to trade facilitation and logistics, before section 4 analyses trade logistics along the corridor. Institutions, policies, and regulations as well as recent reforms are reviewed in section 5. Section 6 addresses non-tariff measures affecting exports and imports; section 7 concludes.

## 2 TRADE PATTERNS

### 2.1 Export Performance

Ethiopia’s main exports are agricultural products such as coffee, pulses, oilseeds, meat, as well as some manufacturing products (such as leather and leather products, and textiles and garments). Ethiopia’s export base has remained narrow, with five products (i.e. coffee, oilseeds, chat, pulses, and flowers) accounting for more than 75 percent of Ethiopia’s total exports in 2018/19 (Figure 1). 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.

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



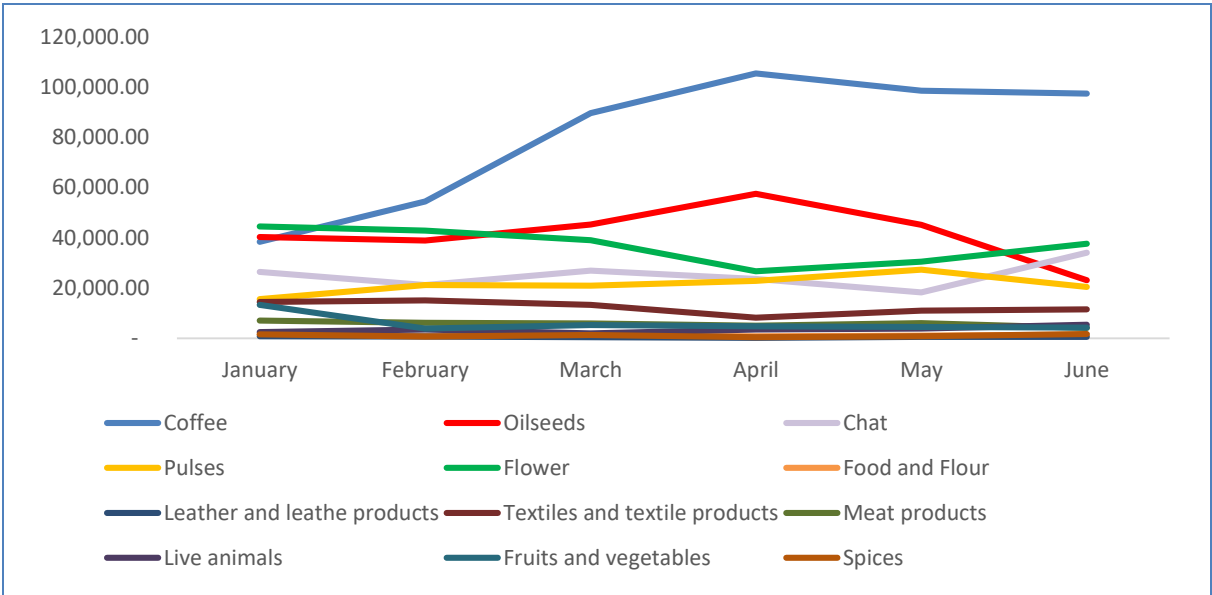
Source: Based on National Bank of Ethiopia data

The COVID-19 pandemic has affected all economic activities, but some sectors such as trade, transport, tourism and hospitality have been hit particularly hard compared to others (Goshu *et al.*, 2020). In contrast, merchandise exports declined by (only) 2.6 percent between April and June 2020 (the latest month for which data are available).

Although the average decline in merchandise exports was limited, across sectors they performed differently during the pandemic period (Figure 2). Flower exports experienced a significant decline early on in the pandemic (i.e. in March and April 2020) due to a fall in demand for the product by major importers resulting from the imposed movement restrictions and other measures in destination countries. But following the easing of restrictions in countries which constitute Ethiopia’s major importers of flower products (e.g. The Netherlands), flower export increased again. In addition, Ethiopian Airlines maintained cargo services without interruption, which has helped in easing logistics problems related to flower exports, while other countries (e.g. Kenya)

suspended cargo flights because of COVID-19.<sup>3</sup> In addition, the government introduced a logistics subsidy including free rail transport and reduced dry-dock and air freight charges to support exporters (Oqubay, 2020). Some recovery can also be seen for chat and textiles products; exports of the latter shrank by almost half between February and April 2020 but then slightly recovered until June 2020, 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 2). Between April and June 2020, for example, exports of coffee declined by 2.6 percent, of oilseeds by 26.2 percent, pulses by 3.7 percent, meat products by 5.7 percent, and fruits and vegetables by 3.8 percent.

**Figure 2: Trends in Ethiopia’s merchandise exports during the COVID-19 period, main export products (January-June 2020)**



Source: Ethiopian Customs Commission

Both demand and supply factors could explain the decline in exports during the pandemic period. 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.

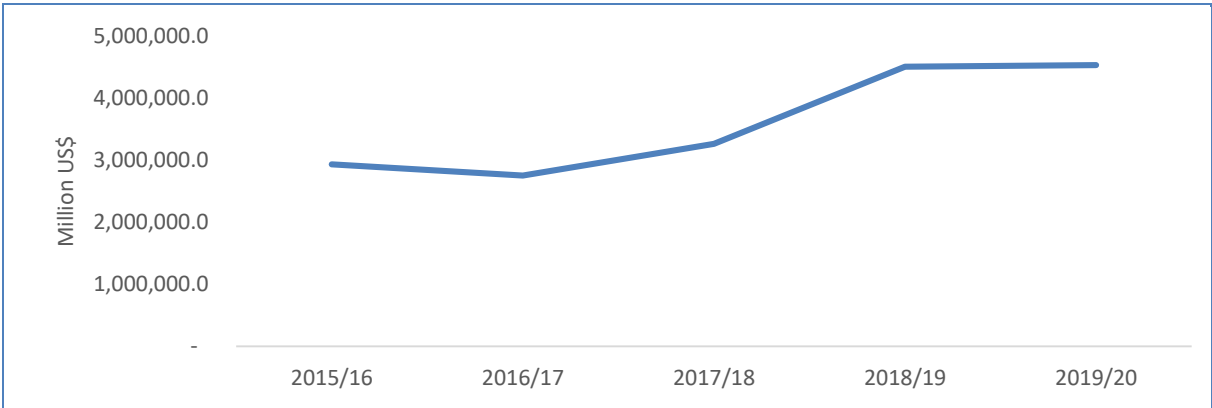
On the supply side, domestic production has also been adversely affected by government measures such as social distancing and partial lockdowns which forced firms to scale down their operation. For example, about 30 and 27 percent of firms in industry and services, respectively, reported that their businesses were affected by restricted movement of workers. Firms also reported low capacity utilization at 35 percent (Bundervoet *et al*, 2020). In addition, delays in obtaining 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, 2020b). 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

<sup>3</sup> In addition, the flood has damaged flower products in Kenya which helped increase demand for Ethiopian flowers. See “Flower export resumes after interruption”, Capital Ethiopia, 13 July 2020, <https://www.capitalethiopia.com/featured/flower-export-resumes-after-interruption/> [accessed 25 March 2021]

percent 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 to reopen their economies, the supply of coffee and oilseeds in the global market has increased again.

Exports of services increased from USD 2.9 billion in 2015/16 to USD 4.5 billion in 2019/20, equivalent to an average annual growth of about 11 percent (Figure 3). The main services export sectors are transport (the most important sector) and travel. Ethiopian Airlines is the main source of services exports. It appears that the export of services has not been adversely affected by the pandemic as the Ethiopian Airlines provided cargo services to many countries.

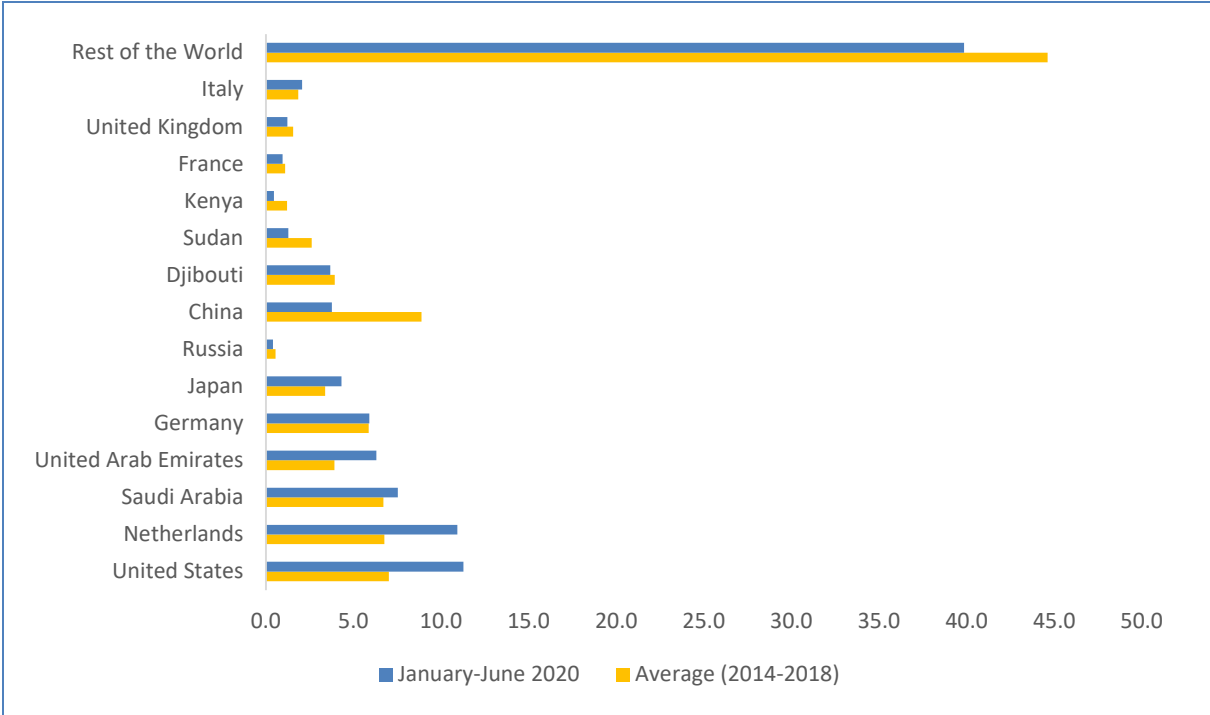
**Figure 3: Trends in services exports (Million US\$)**



Source: ITC Trade Map

Data on merchandise 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). By continent, Asia has remained the main destination of Ethiopia’s exports during the pandemic. In particular, about 13.5 percent of total exports are destined to Saudi Arabia and United Arab Emirates. Between October and December of 2019/20 (pre-COVID-19), Asia accounted for 35 percent of total exports (NBE, 2020). Between 2014 and 2018, China was the main destination of Ethiopia’s exports, accounting for 8.9 percent of total exports. 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. 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 merchandise exports, January-June 2020 (percent of total exports)**

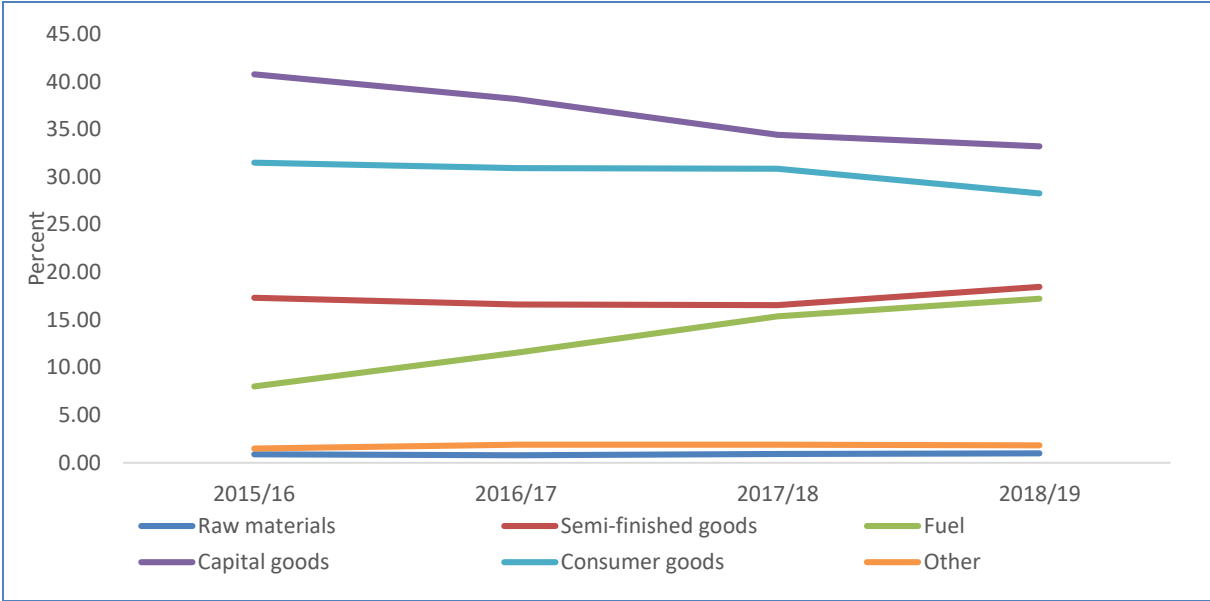


Source: Ethiopian Customs Commission

**2.2 Import Performance**

The total import bill decreased from USD 16.7 billion in 2015/16 to USD 15.1 billion in 2018/19, a 2.6 percent drop per year. Main imports among others are petroleum oils, vehicles, medicines, fertilizer and aircraft. The structure of imports (Figure 5) reveals that Ethiopia’s imports are dominated by capital goods (notably industrial and transportation equipment), accounting for 33.2 percent of total imports, followed by consumer goods (28.3 percent of total imports in 2018/19). Semi-finished goods and fuel accounted 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.

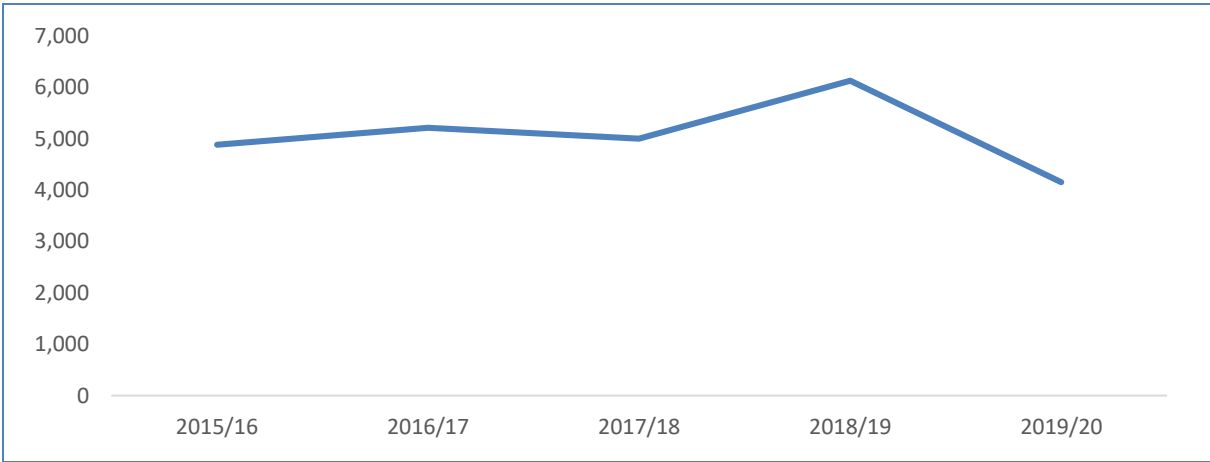
**Figure 5: Composition of Ethiopia’s imports, 2015/16 – 2018/19 (percent of total imports)**



Source: National Bank of Ethiopia

Imports of services decreased from USD 4.9 billion in 2015/16 to USD 4.2 billion 2019/20, which corresponds to an average decrease of 4 percent per year. However, the actual decline all happened in 2019/20 (Figure 6): Imports of services stagnated between 2015/16 and 2017/18, then increased in 2018/19 to USD 6.1 billion, and then sharply contracted in 2019/20, which could be related to the pandemic.

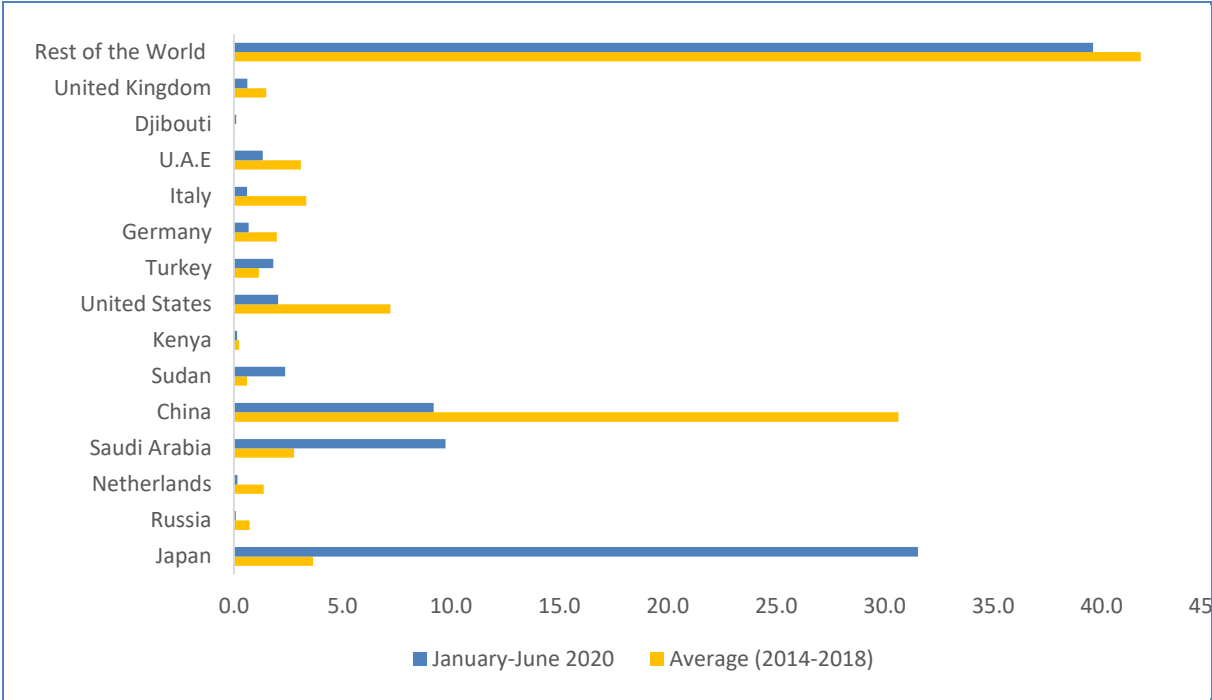
**Figure 6: Trends in services trade (Million US\$)**



Source: ITC TradeMap

Ethiopia’s merchandise 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. Between 2014 and 2018, imports from China were significant, accounting for 30.6 percent of total imports, followed by the 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. Six Asian countries (Japan, Kuwait, Singapore, Saudi Arabia, China, and India) accounted for a large share (78.8 percent) of the import bill between January and June 2020.

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



Source: Ethiopian Customs Commission

## 3 TRADE AND LOGISTICS FACILITATION: CONCEPTS AND PRINCIPLES

### 3.1 Conceptualizing Trade Facilitation

In the globalized world, enhancing trade competitiveness is central in terms of promoting economic growth. Trade facilitation enhances international trade efficiency and the economic development of countries as it impacts trade competitiveness and market integration. Trade competitiveness encompasses the cost, time and quality of a country's exports and its efficiency in importing inputs for the local industries (UNESCAP, 2004; World Bank, 2010). Note that enhancing trade competitiveness requires a holistic review of the entire trade development strategy of a country. Facilitating trade may require reforming and modernizing border management institutions, changing transport regulation policy, and investing in infrastructure.

Tackling trade facilitation is made somewhat difficult at a conceptual level because there is no agreed definition for trade facilitation. A narrow definition refers to “the simplification, standardization, and harmonization of procedures and associated information flows to move goods from seller to buyer and to make payment” (Mustra, 2011: 23). However, usually the notion of trade facilitation involves a broader perspective on the supply chain, encompassing trade procedures as well as import and export supply chains and the physical movement of goods. Hence, a broader definition of trade facilitation is “identifying and addressing bottlenecks that are imposed by weaknesses in trade related logistics and regulatory regimes and that prevent the timely, cost effective movement of goods” (Mustra, 2011: 23). According to this wider definition, trade facilitation spans a wide range of activities including logistics, transport facilitation, and trade related infrastructure, with the simplification and rationalization of regulatory and commercial procedures and the elimination of unnecessary red tape. The WTO also defines trade facilitation as the specification and harmonization of international trade procedures, where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade (UNESCAP, 2004). By easing regulatory, administrative and policy constraints, trade facilitation measures aim to establish a transparent, consistent and predictable environment for border transactions based on simple and standardized customs procedures and practices, documentation requirements, cargo and transit operations, and trade and transport conventions and arrangements (UNCTAD, 2006). Trade facilitation measures, through adopting efficient procedures and operations with focus on supply side perspective, help make trade across borders faster, cheaper and more predictable, whilst ensuring its safety and security.

The broader perspective of trade facilitation focuses on investing in infrastructure; modernizing customs and improving the border crossing environment; streamlining documentary requirements and information flows; ensuring efficiency in gateways, such as ports and airports; regulating logistics and transport services and making them competitive; facilitating corridors and transit trade, especially in landlocked countries; promoting multimodal freight transport (railroads); and ensuring transport security (Mustra, 2011). These focus areas can be clustered into key components that have a direct bearing on how firms are required to process their trade transactions, as well as the costs of these processes. They include:

- (i) **Trade and customs legislation and regulations**, where the regulatory framework establishes the level playing field for importers and exporters to abide by when they conduct their business.
- (ii) **Trade documentation and procedures** help identify traded goods in terms of



description, value, ownership for trade, control and tracking purposes.

- (iii) **Customs clearance procedures** look at how goods imported and exported are to be declared to the customs authority, how the payment of customs duties should be made, when the goods may be inspected, and the storage of dutiable goods in bonded warehouses.
- (iv) **Trade and customs enforcement practices** are necessary to prevent abuses of a country's trading system. Non-compliance with trade and customs regulations may result in the loss of revenue and may even be harmful to a country for safety, health, environmental or security reasons.
- (v) **Use of information and communication technology** helps facilitate trade through automation and fundamentally change customs and government services through the introduction of various ICT-enabled techniques, such as paperless trade documentation and real-time information sharing with relevant agencies within and across national boundaries. An effective automated trade system increases the efficiency of trade processes.
- (vi) **Trade finance infrastructure development** helps traders to secure enough financing so that trade can actually take place.

### 3.2 Principles of Trade Facilitation

Based on the national experiences of a growing number of countries implementing trade facilitation programs and strategies, certain fundamental principles can be identified that form the basis for a trade-enhancing trade and logistics framework (World Bank, 2010; UNESCAP, 2004).

**High-level political commitment.** Most trade facilitation measures require close cooperation among stakeholders, in particular, public agencies with potentially conflicting responsibilities and objectives. As a result, a clear commitment to trade facilitation at the highest possible political level is, generally, necessary to achieve results.

**Public and private consultation and partnership.** Trade facilitation measures aim to make it easier and cheaper for enterprises to engage in trade. Trade facilitation reforms require a cultural shift from a trade control to a trade facilitation mindset, including the building of trust between public and private sector stakeholders, institutionalization of public-private sector collaboration.

**Early identification of legislative requirements.** Implementation of trade facilitation measures often requires new or revised legislation. As these legislative changes typically take the longest time, they should be identified and acted upon as early as possible.

**Identification of financial requirements and fund availability.** This should be assessed at an early stage to ensure that an envisaged trade facilitation measure and its implementation plan are realistic and practical. Public-private partnership funding options, including support from development partners, should be systematically considered for resource-intensive measures.

**Integrated approach.** Given that trade facilitation measures are closely interrelated, a systemic and integrated approach needs to be followed, starting with a comprehensive analysis of trade facilitation bottlenecks, including those related to transport regulations and infrastructure.

**Pilot and phased implementation** to ensure no unintended adverse impact or system breakdown

occurs. Conducting changes on an experimental basis, followed by a thorough evaluation of the resulting costs and benefits, are essential.

**Transparency.** Sufficient information and time should be provided for affected stakeholders to learn and adapt to the new procedures as part of the trade facilitation program.

**Built-in training and technical support** is required to effectively implement trade facilitation measures which involve changes in both mindset and technology. Note that capacity building programs should accompany procedural changes and target both the government and the private sector.

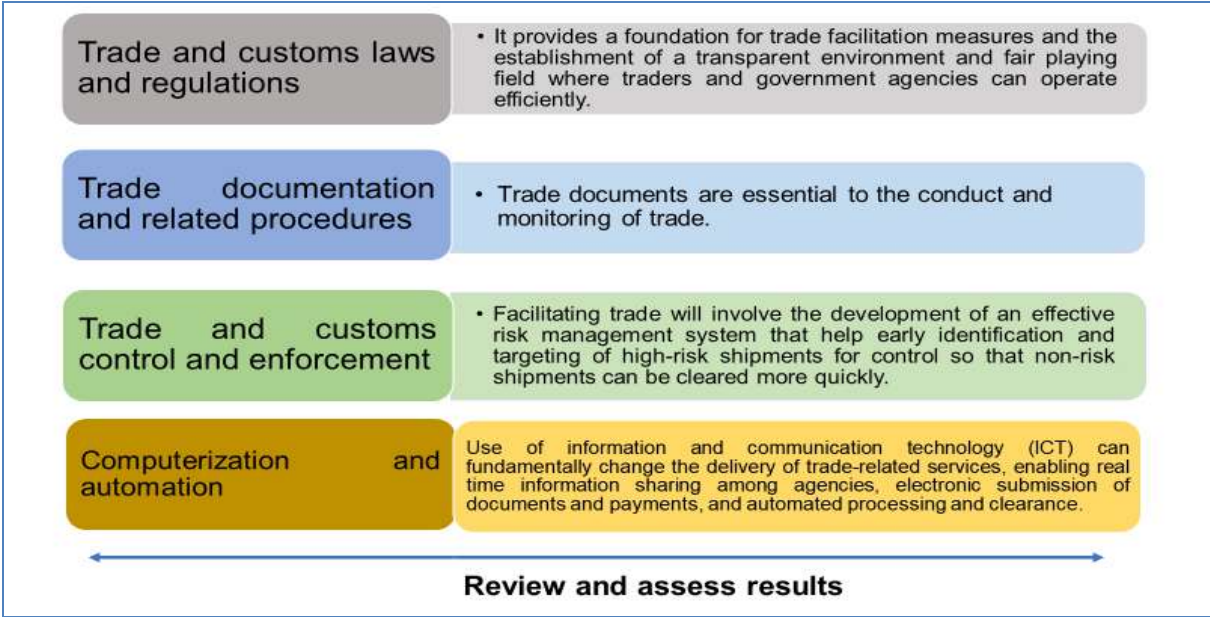
**Performance and progress monitoring.** A robust monitoring and evaluation system should be designed to assess the impact of trade facilitation measures by both government and the private sector.

How to make trade facilitation happen? In a globalized world, trade facilitation takes place at three interrelated levels, namely, the national, regional and international levels. Note that although standards and agreements are developed and agreed at the regional and international levels, these agreements including standards and procedures are implemented at the national level. Many trade facilitation measures require a reform and modernization process that depends on an enabling environment, which is built upon strong political support and professional program management and change management capabilities (World Bank, 2011). This enabling environment involves different types of interventions and activities addressing the various dimensions of the government, including (UN, 2012):

- Regulatory reforms aiming at a clear, concise, transparent legal framework (**Legal**);
- Institutional development, private sector consultation, and inter-agency cooperation (**Organization**);
- Introduction and modernization of infrastructure for electronic processing of trade documents and related data exchange, including IT systems (**Technology**);
- Changes in business processes and procedures (**Processes**); and
- Capacity building of implementing managers and officers (**People**).

The main entry point for establishing a trade facilitation institutional structure is an initial review of the trade facilitation situation. This needs to bring together and raise the awareness of major stakeholders. The initial assessment also guides the nature and content of the national trade facilitation program. Operationalization of the trade facilitation framework generally covers four key areas (Figure 8). The sequencing of reforms in each area should be based on the situation of each country.

**Figure 8: Operationalization of trade facilitation measures**



Source: ESCAP (2004)

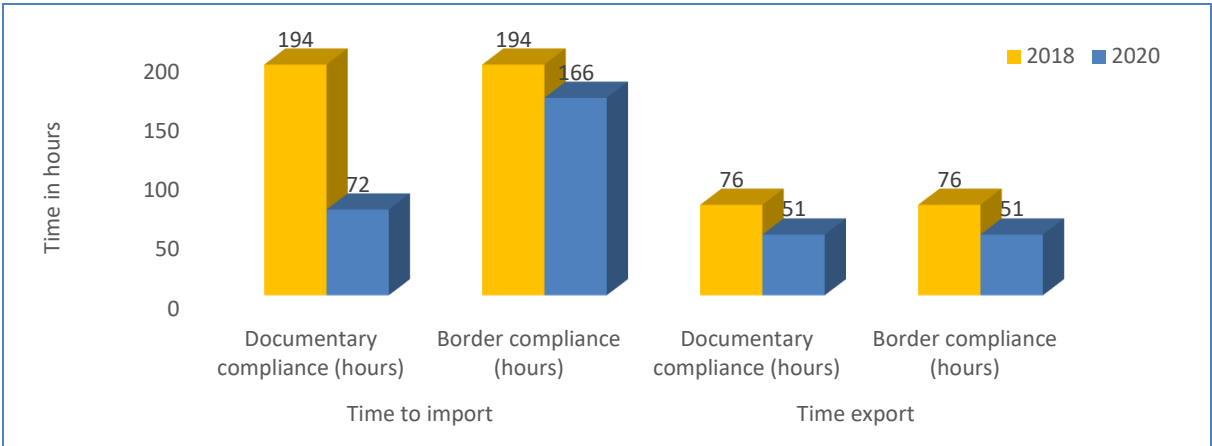
# 4 TRADE LOGISTICS INFRASTRUCTURE

## 4.1 Ethiopia’s Trade Logistics Performance

Logistics infrastructure consists of roads, railways, airports, sea ports, ICT and energy production. Dry ports and freight stations, and warehouses are important elements of a logistics system.

Despite reforms to improve the trade logistics environment, trade logistics performance indicators still show that Ethiopia’s rank has deteriorated from 104 in 2014 to 126 out of 160 countries in 2016. In particular, Ethiopia’s performance on the “trading across borders” indicator is poor, the country being ranked 156 out of 190 in 2020. The time required (especially at the border) to import goods is still high (Figure 9), and it remains among the highest when compared with those of neighboring countries. Documentary compliance for exporting and importing takes, respectively, 51 and 72 hours in 2020. Border compliance for imports has remained a challenge.

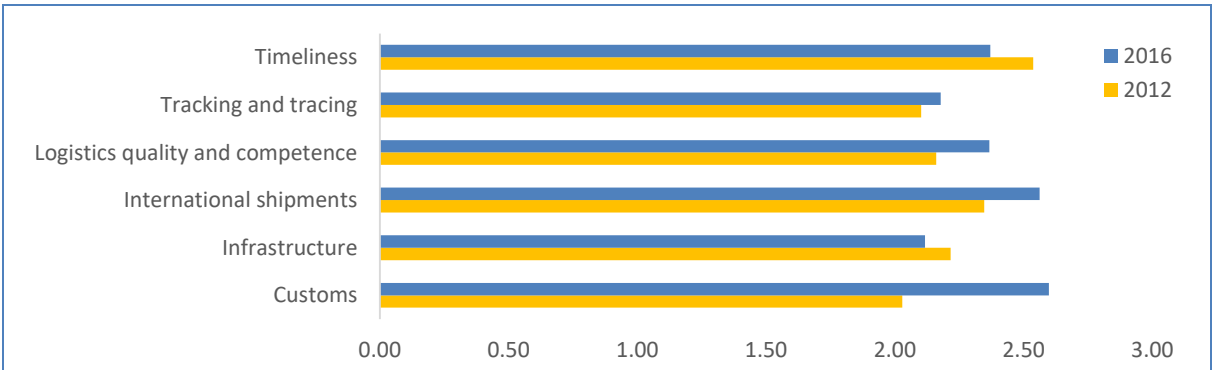
**Figure 9: Time to export and import, Ethiopia**



Source: World Bank (2018, 2020a): Doing Business data

In the Logistics Performance Index (LPI), Ethiopia has improved its score slightly on the “efficiency of customs and border clearance” indicator over the same time period (Figure 10). Simplified and efficient trade logistics are crucial component of a favorable trade policy. The country's competitiveness continues to be constrained by high trade costs that deter investment by both local and international businesses from operating in Ethiopia.

**Figure 10: Ethiopia’s performance on customs and border clearance, (1-5, high)**



Source: World Bank, Logistics Performance Index

The transport and logistics sector in Ethiopia is underperforming compared with Asian and land-

locked countries in Africa (e.g. Uganda). Despite massive investment in transport infrastructure, the cost of shipping a 20-foot container (assuming to export garments) to Germany from Ethiopia is 247 percent higher than from Vietnam, and 72 percent higher than from Bangladesh (World Bank, 2019). High logistics costs in Ethiopia undermine both growth of the export-driven light manufacturing sector and the continuing transformation of the agriculture sector. Firms in Ethiopia face higher inventory costs and longer lead times, which result in a supply chain that is not able to respond to time constraints.

One of the key factors that has been identified as undermining international competitiveness is poor logistics services. A number of recent reports have drawn attention to the logistics sector in Ethiopia as being a critical constraint to current trade flows and a bottleneck to further economic growth and development (Government of Ethiopia, 2016; Nathan Associates 2014; World Bank 2014; African Development Bank, 2015). Logistics is a network industry where efficiency is impacted by multiple regulations and requirements defined by a range of regulatory bodies (maritime transport, road transport, rail, ports, customs, finance, etc.), all with different objectives. Hence, regulatory coordination is essential in supporting efficiency in the sector and preventing fragmentation of supply chains.

Apart from the international LPI, the domestic LPI looks in detail at the national logistics environments which contains detailed information on domestic logistics environments, core logistics processes and institutions, and time and distance data. It looks at the logistics constraints within the countries, not just at the gateways, such as ports or borders. It has four major components, namely infrastructure, services, border procedures and time, and supply chain reliability. For example, lead time for exports and clearance time without physical inspection are higher in Ethiopia than in comparator countries (Table 1).

**Table 1: Domestic LPI**

		Ethiopia	Kenya	Rwanda	Uganda	Tanzania
<b>Export time and distance / Port or airport supply chain</b>	Distance (kilometers)	750	298	N/A	750	51
	Lead time (days)	60	4	N/A	3	4
<b>Export time and distance / Land supply chain</b>	Distance (kilometers)	750	203	2000	750	776
	Lead time (days)	25	3	6	5	7
<b>Import time and distance / Port or airport supply chain</b>	Distance (kilometers)	750	429	N/A	3500	51
	Lead time (days)	10	4	N/A	14	4
<b>Import time and distance / Land supply chain</b>	Distance (kilometers)	750	483	2000	1250	326
	Lead time (days)	14	4	7	6	5
	Clearance time without physical inspection (days)	11	4	3	3	6
	Clearance time with physical inspection (days)	1	3	2	3	2

Source: World Bank (2018): Domestic LPI

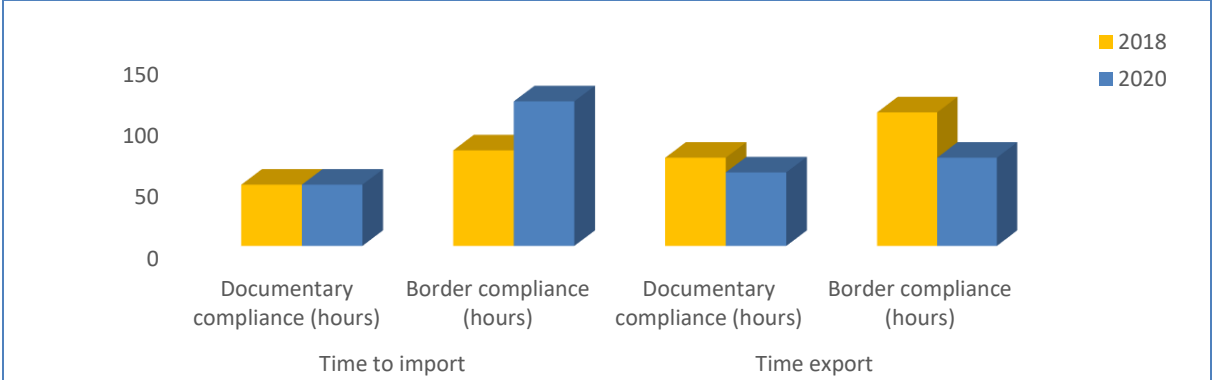
**4.2 Djibouti’s Trade Logistics Performance**

Djibouti also performs badly in the Doing Business “trading across borders” indicator (rank 147 in Doing Business 2020). While border compliance for exports improved, it worsened for imports in 2020 compared with the level in 2018 (Figure 11). In 2018, Djibouti ranked 90<sup>th</sup> in the LPI, a significant improvement compared with its rank in 2016 (134). However, looking at specific dimensions indicates that the LPI scores for international shipments and tracking and tracing declined in 2018 (Figure 12).

The country has initiated reforms to improve the business climate. Djibouti has undertaken massive investments to expand transport infrastructure, develop ports and airports, extend road networks

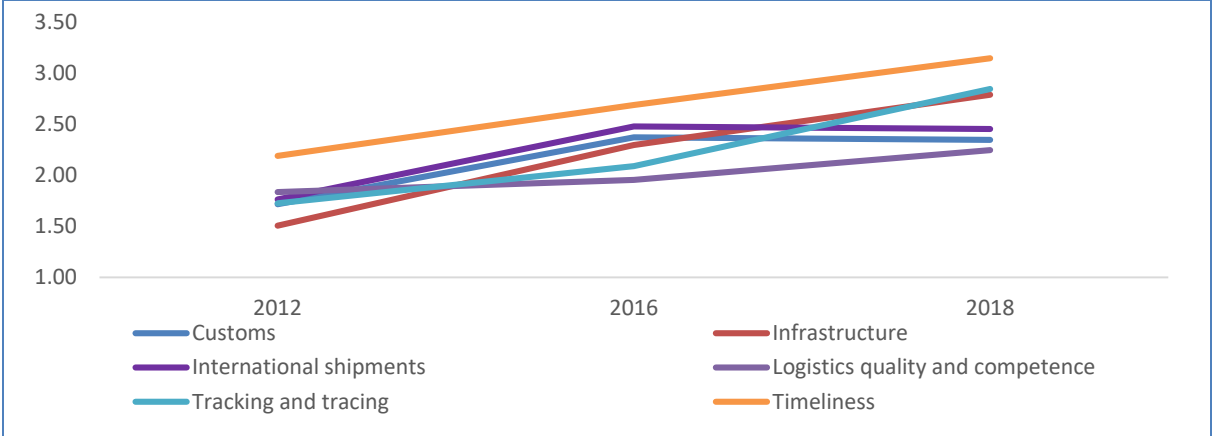
and easing cargo traffic with neighbouring countries such as Ethiopia. For example, the country is a shareholder of the Doraleh Container Terminal (DP World is the other shareholder and manager). In addition, Djibouti is the main shareholder and manager of the Doraleh Multi-Purpose Port (UN, 2018).

**Figure 11: Time to export and import, Djibouti**



Source: World Bank (2018, 2020): Doing Business data

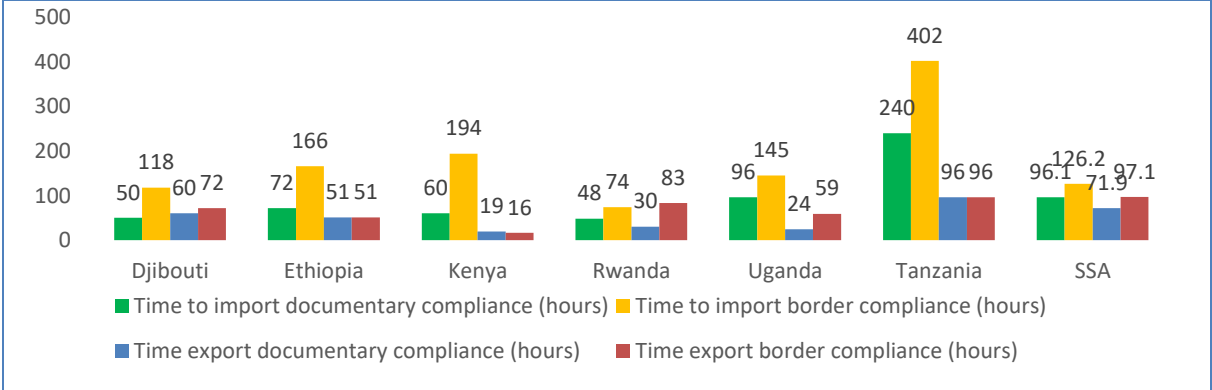
**Figure 12: Djibouti’s performance on customs and border clearance (1-5, 5: high)**



Source: World Bank, Logistics Performance Index

How do Djibouti and Ethiopia compare with other countries? In comparison with other East African countries (Figure 13), the performance is average, but the time required for documentary compliance of exports is higher than in Kenya, Rwanda and Uganda.

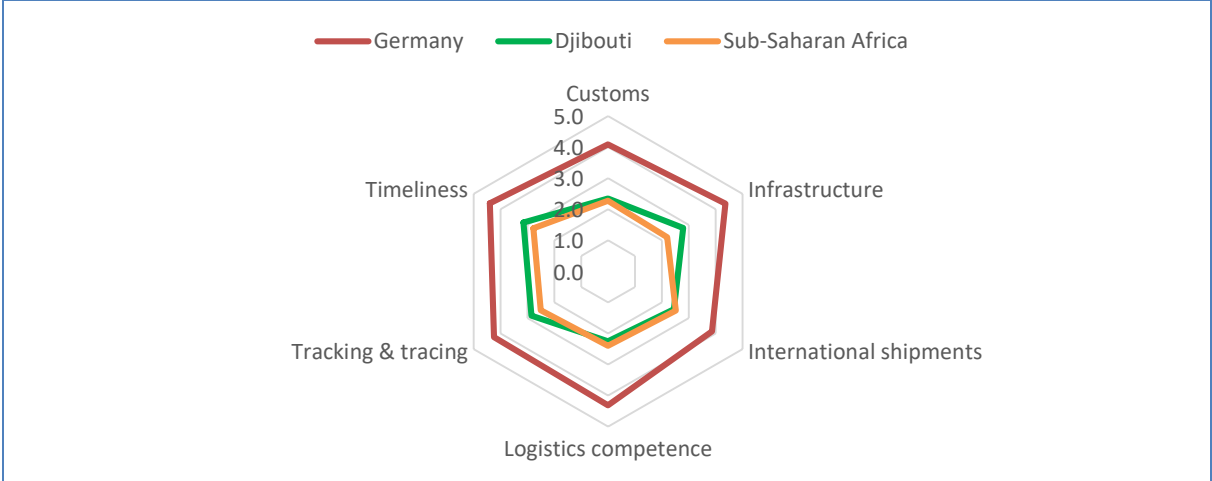
**Figure 13: Country comparison in trading across borders**



Source: World Bank (2020a): Doing Business data

In 2018, Germany was the top performer country (ranked 1<sup>st</sup>) in the LPI. By all dimensions of LPI, Djibouti is far behind the top performer country, particularly in customs and logistics competence. In these two indicators, Djibouti scored below 2.5 (Figure 14). As the main gateway, Djibouti’s performance in logistics matters much to Ethiopia’s trade.

**Figure 14: LPI of Djibouti compared with best performer country (Germany), 2018**



Source: Based on World Bank LPI

**4.3 Trade-Supporting Infrastructure**

Investment in trade infrastructure such as road access, internet access and integrated office service giving approach (e.g. One-Stop Shop) can facilitate trade activities which could increase the delivery time and in turn creates extra cost of doing business in different ways. This section discusses trade infrastructure with a focus on roads, railway and ports both in Djibouti and Ethiopia. In addition, logistics providers are characterized and discussed including freight-forwarding service providers.

**4.3.1 Road Logistics**

As a landlocked country, Ethiopia primarily uses the port of Djibouti as a gateway for the vast majority of its internationally traded goods, with most of the goods essentially transported to and from the port by trucks. Important investments are also being made that link industrial parks to the main transport corridors within Ethiopia and provide onward connectivity to the Port of Djibouti. For instance, financed by a consortium of development partners is the Batu (Zeway)-Arsi Negele section of the Modjo-Hawassa Development Corridor. The expressway aims to provide an efficient link between the Hawassa Industrial Park, the largest specialized textile and apparel industrial park, to the Modjo Dry Port.

Ethiopia has steadily expanded its road network in recent years. In 2015/16, Ethiopia had 110,414 kilometers of all-weather roads, which increased to 126,773 kilometers in 2019/20 (Planning and Development Commission, 2020). This helped reduce the average time to reach all-weather roads from 1.7 to 1.4 hours over the same period. In the past fifteen years, the Ethiopian government has vigorously invested in new road construction as well as the enhancement of the existing road network through Ethiopia’s Road Sector Development Program (RSDP). Road density (kilometer per 1,000 km<sup>2</sup>) improved from 100.4 in 2015/16 to 115.2 in 2019/20.

The six-axle truck/trailer combination is the most common mode of transport used on the Addis Ababa-Djibouti road transport corridor. However, for containers this is not the best mode of transport, as it brings a number of limitations with it. Locking containers to the bed of the trucks



is not possible. The high sides of the trailers are used to keep the containers in place which makes it difficult to load containers using reach-stackers. The six-axle truck/trailer combination is also not purpose-built – with 58 tons as the allowed gross vehicle mass (GVM) (UNCTAD, 2018) – to carry bulky items such as cement. Trucks are also reported to carry heavier loads than their capacity, contributing to an accelerated deterioration of the roads.

Other challenges include weak bridges for bulk transport by car, security challenges, high transaction costs, poor conditions of roads, missing links of dry port with railway and last miles missing link (e.g. railway is not connected with port). Transporters complain that road conditions in Djibouti also are in poor conditions, requiring more time to reach destinations.<sup>4</sup>

#### 4.3.2 Rail Logistics

Ethiopia is aggressively working to develop an extensive rail network. In 2017, Ethiopia and Djibouti signed an agreement to implement a joint venture company that manages the Addis Ababa-Djibouti Railway. The Ethiopian Railways Corporation (ERC) under the Ministry of Transport completed an electrified railway network construction project that links the capital city Addis Ababa to the port of Djibouti. The 756 kilometer project is part of China's Belt and Road Initiative (BRI) and the first overseas railway constructed by Chinese enterprises with complete adoption of international standards. The line runs from Addis Ababa/Sebeta through the two large Ethiopian cities of Adama and Dire Dawa and links industrial parks and dry ports.<sup>5</sup> The new rail system began commercial operations in 2018. This joint venture is contracted with the Chinese consortium to carry out the actual management of the railway. The Addis Ababa-Djibouti rail project is expected to significantly improve Ethiopia's international trade by reducing traders' logistical costs and time of delivery. Initially, the new electric railway was designed to reduce transport time from Djibouti to Modjo (a dry port city 70 kilometers from Addis Ababa) from the current 84 hours to just 10 hours.<sup>6</sup>

However, the Ethiopia-Djibouti railway faces frequent theft and vandalism.<sup>7</sup> Other challenges include frequent power interruption, traffic accidents and shortage of spare parts. The speed limit of the trains has been reduced from 80 km per hour to 50 km per hour due to damages to the railway infrastructure. The trip from Addis Ababa to Djibouti now takes 18 hours, reduced by 6 hours from its previous arrival time. The railway has lost 114 million ETB in the first quarter of 2019/20.<sup>8</sup> Currently, the railway transports only 25 percent of the country's export and imports goods.

#### 4.3.3 Port Logistics

##### 4.3.3.1 Djibouti Port

The Ethiopia-Djibouti corridor, which links Ethiopia to the Port of Djibouti, is now the dominant gateway for the country with over 95 percent of Ethiopia's imports and exports, and more than

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<sup>4</sup> Poor condition roads are subject to maintenance by both countries.

<sup>5</sup> See "Addis Ababa – Djibouti Railway", Global Infrastructure Hub, 30 November 2020, <https://www.gihub.org/resources/showcase-projects/addis-ababa-djibouti-railway/> [accessed 25 March 2021]

<sup>6</sup> See "Country Commercial Guide Ethiopia - Road and Railways", US International Trade Administration, 20 July 2020, <https://www.trade.gov/knowledge-product/ethiopia-road-and-railways> [accessed 25 March 2021]

<sup>7</sup> Property damage to the railway was severe in Sebeta, Lume, Adama, Bosot, Fentale, Mieso, Bordode to Dewale routes, according to observers. Accidents have also caused the death of several people and hundreds of domestic animals.

<sup>8</sup> "News: Ethio-Djibouti railway suffers from theft and vandalism, leading to heavy revenue loss", Addis Standard, 07 December 2020, <https://addisstandard.com/news-ethio-djibouti-railway-suffers-from-theft-and-vandalism-leading-to-heavy-revenue-loss/> [accessed 25 March 2021]

850,000 tons per month. Currently, very small volumes (around 5 percent) of Ethiopian traffic are using the other ports in the region, mainly Port Sudan and Berbera.<sup>9</sup> Ethiopia accounts for more than 80 percent of all port traffic in Djibouti (World Bank, 2017). There are two terminals at the Port of Djibouti, namely the Port Autonome International de Djibouti, managed by Port de Djibouti (SA), that includes a container terminal, a bulk terminal (managed by Société Djiboutienne de Gestion du Terminal Vraquier, or SDTV), and general cargo, livestock, and dry-port facilities, along with marine and engineering-related services (UNDP, 2017; UNCTAD, 2018). SDTV handles break bulk cargo, including fertilizer and grains and the Doraleh Container Terminal, managed by the international conglomerate DP World. At the Doraleh Container Terminal (DCT), DP World records 37 moves per gross crane hour, which makes DCT one of the more efficient ports in Africa which critically avoids costly delays allowing shipping lines to maintain their schedules.

Three pivot areas handle the Ethiopian import and export trade in the Port of Djibouti. The Doraleh Container Terminal handles most of the containerized traffic; the general cargo area, handles mostly breakbulk but also some containerized traffic; and the bulk terminal handles bulk imports mostly of fertilizer, grains, and coal. The terminal also handles livestock exports (World Bank, 2017). Discharging is made through suction and a crane to feed bagging equipment. About 3,000 tonnes of baggages are discharged every day which are then loaded on the trucks and are dispatched to different locations. The bagging process together with concentration of ships creates congestion at the terminal, resulting in long waiting times for ships and high demurrage charges. Together with high costs due to the inefficient process, the immediate bagging and shipment of bags in Ethiopia ties up a significant number of trucks. Breakbulk and bulk imports pose many challenges which force the use of vessels as temporary storage facilities which comes at a high cost and delays logistic procedures (UNCTAD, 2018). The delays in the port contribute to Ethiopia's high logistics costs for bulk imports, especially grains and fertilizers, and also have some direct financial impacts on enterprises such as Ethiopian Shipping and Logistics Service Enterprise (ESLSE) and other that are responsible for most of the demand for vessels.

Congestion happens in the bulk terminal due to three interrelated factors (World Bank 2017). First, poor coordination, which leads to overlapping arrivals of ships carrying grain and fertilizer. Second, insufficient unloading capacity of the terminal, which is exacerbated by the bagging of grain and fertilizer directly from the ship for loading onto trucks which further delays logistic time. Third, trucks tend to be too small and are key constraints. Despite the inauguration of the new terminal at the port of Djibouti in 2017, policy problems such as coordinating the bulk of deliveries in size, quality and organization of fleet of trucks and storage facilities further limit efficient unloading.

A study conducted by the Ethiopian Logistics Community of Practice indicated a mismatch of working hours between the Djibouti and Ethiopia which entails high congestion and economic losses.<sup>10</sup> Ethiopia has 40 working hours a week, while Djibouti has 48 – this requires establishing a shared standard working procedure and the aligning working hours between the two countries.

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<sup>9</sup> Port Sudan is the closest port to Northern Ethiopia. It handles primarily exports such as sesame, which is grown and processed in northern cities, such as Gondar. Goods are transshipped at Gedaref in Sudan and carried by Sudanese trucks to the Port. Mombasa is the closest port for Southern Ethiopia. A new container terminal and other construction is underway to add capacity to Mombasa. Once the road construction in Kenya is complete, Ethiopian shippers will readily access the East African Community for trade as well as access to another major port with new terminal coming on line. It will also host Ethiopia's first One Stop Border Post.

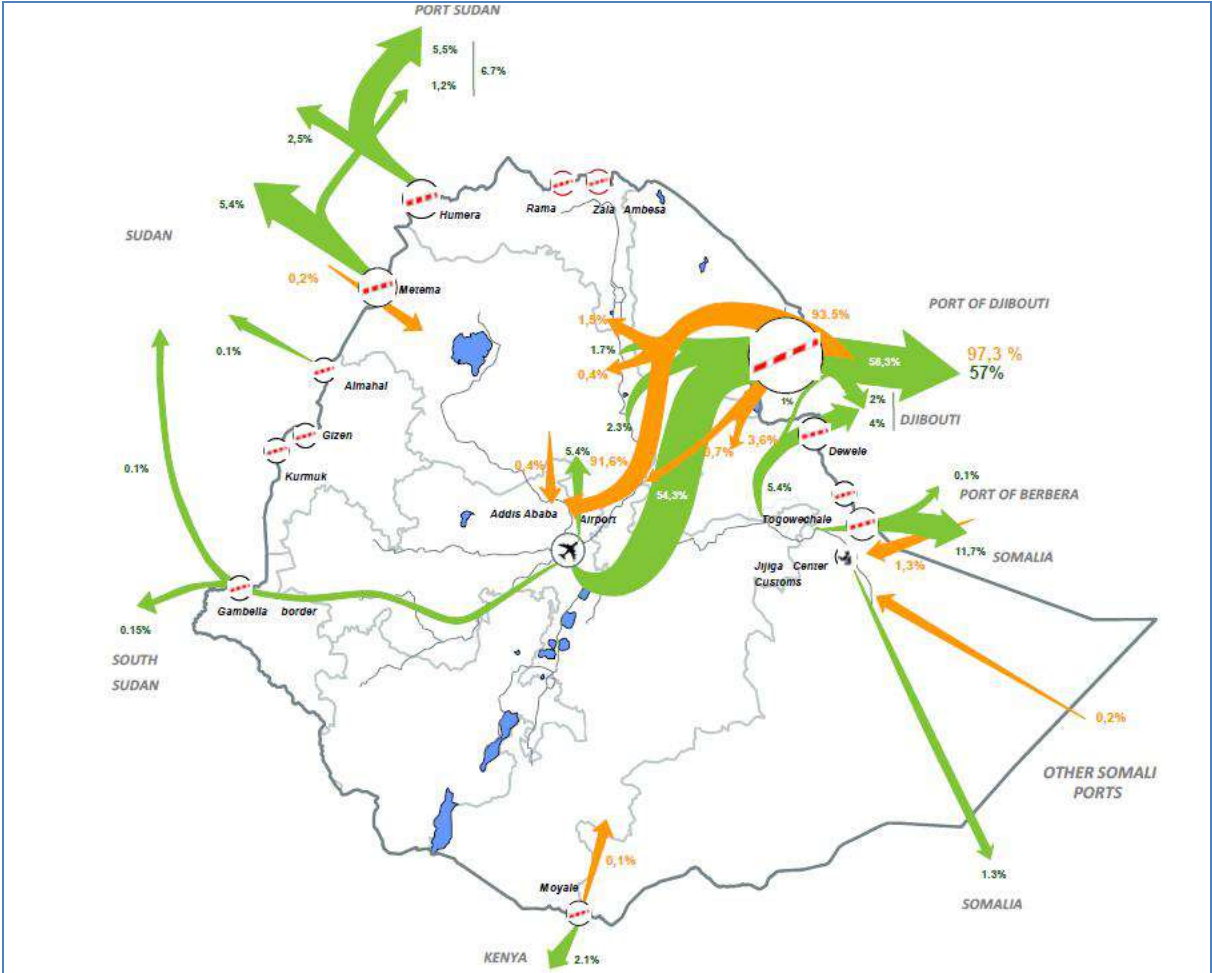
<sup>10</sup> See "Ethiopia: Committee Arises to Facilitate Ethio-Djibouti Trade", Addis Fortune/allAfrica.com, 19 December 2020, <https://allafrica.com/stories/202012220519.html> [accessed 25 March 2021].

However, recently this problem has been solved by aligning working hours in both countries, a step in the right direction.

Resolving these problems requires greater coordination and the restructuring of the logistics chain. For example, ship turnaround time, handling costs, and transport costs (especially with the railway) will be reduced by delaying bagging until final delivery which requires significant investments in bulk storage and handling at key locations in Ethiopia. In 2017, the World Bank designed a project to address some of the constraints in Modjo Dry Port. The objective of the project is to enhance the performance of the Ethio-Djibouti corridor through improvements in operational capacity, efficiency, and range of logistics services at the Modjo Dry Port.

The construction of the Lamu Port, part of the Lamu Port-South Sudan-Ethiopia-Transport Corridor, a large-scale infrastructure project that aims to interconnect Kenya, Ethiopia and South Sudan, is expected to ease the congestion problem.

**Figure 15: Ethiopian Exports and imports and the Dominance of the Ethio-Djibouti Corridor**



Notes: The size of the arrow reflects the share of Ethiopia’s trade along each of the designated corridors.  
 Source: World Bank (2017)

**4.3.3.2 Dry Ports in Ethiopia**

As a landlocked developing country, Ethiopia continuously faces the challenge of physical isolation, supply chain related barriers from the sea and high costs of trading with the rest of the world (United Nations Economic Commission for Africa, 2011). In order to counter these challenges associated with landlockedness, Ethiopia has established several dry ports to facilitate trade in

goods. Dry ports are expected to improve the logistics network of Ethiopia.

Modjo Dry Port and terminal, established in 2009, is one of the largest operational inland dry ports in the country. Modjo Dry Port is one of Ethiopia's eight operational inland dry ports along with Quality, Semera, Meqelle, Dire Dawa, Gelan and Kombolcha, Hawassa and Woreta dry port the recent joined port.<sup>11</sup> These ports have an installed handling capacity of 24,000 containers at a time and handle over 90 percent of the country's physical exports.<sup>12</sup>

Modjo Dry Port has been identified by the government as the key node for Ethiopia's international trade. As the largest port in the country, Modjo Dry Port handles more than 70 percent of the nation's imports (Tilahun, 2020). It is located 73 km from the capital and connected to the new Ethio–Djibouti railway line. Modjo Dry Port works with two systems known as unimodal transport and multimodal transport. Most of the medium and large manufacturing firms connected to international markets are located in the surrounding areas of Addis Ababa.

However, there are significant operational constraints at the dry ports (World Bank, 2017). These include (a) insufficient cargo handling equipment; (b) lack of facilities for stuffing of export containers and unstuffing of import containers; (c) lack of proper systems for the management of the facility, leading to delays in locating containers and necessitating increased moves of boxes—the port is operating without a proper Terminal Operating System and gate system; (d) increased congestion around the facility due to poor traffic flow patterns and lack of parking spaces for trucks; (e) poor port security as evidenced by the absence of closed-circuit television (CCTV); and (f) lack of facilities and readiness to handle inbound and outbound railway traffic. Underinvestment in facilities and equipment, poor operational procedures and control, and lack of a yard management system are responsible for the excess time for truck turnarounds. For bulk imports, the key weakness is the lack of storage and handling facilities in Ethiopia.

#### 4.3.4 Logistics Services Providers

Ethiopia has three types of freight-forwarding service providers: Forwarding and shipping agency service providers, forwarding service providers, and customs clearing agents. Foreign participation in the sector is not permitted under the investment law. The state-owned ESLSE, which dominates the logistics sector, provides freight forwarding and clearing, shipping, as well as trucking and stevedoring services (World Bank, 2017) (see Box 1). It also arranges the transfer of goods between Djibouti and Ethiopia and operates the dry port at Modjo. In 2018, the Ethiopian government expressed its intention to privatize the logistics sector, but since then no further actions towards privatization have been visible.

##### **Box 1: ESLSE services – an overview**

ESLSE provides the following services:

- Shipping services that travel to and from the port of Djibouti across ports in the Persian Gulf and Indian sub-continent, China, the Republic of Korea, Japan, Singapore, South Africa, and Indonesia, using its own ships and slot chartering with various global maritime carriers are provided by the ESLSE.
- The ESLSE's Djibouti office also provides agency services that takes care of import formalities, informs about the arrival of ships for authorities and their ships and crews. It also provides booking and canvassing services for Ethiopian export goods.
- Stevedoring which involves discharging import cargos from ships and loading cargo into an empty container a process which is technically referred as "Stuffing" is also provided by the ESLSE.
- Shore handling - the ESLSE provides safe storage of discharged cargo from vessels that will be eventually

<sup>11</sup> See ESLSE Website, <https://www.eslse.et/dryport.html>

<sup>12</sup> "Swiss Firm to Digitise Modjo Dry Port", Addis Fortune, 29 February 2020, <https://addisfortune.news/swiss-firm-to-digitise-modjo-dry-port/> [accessed 25 March 2021]

dispatched across destinations within Ethiopia.

- Freight forwarding services include the following: multimodal transport: a door-to-door cargo service with a single administrative document from the point of origin to the point of destination.

Forwarding service providers represent 17 percent of the service providers and the majority lacks strong financial bases and faces some problems in management and organization (UNDP, 2017). Customs clearing agents consist of informal operators and represent about 75 percent of the services providers and focus on individual consignments in which they provide cheaper services based on personal contacts. The majority lacks strong financial backing, management and organization.

The ESLSE contracts trucking services which are mainly provided by the private sector. There are close to 7,000 trucks operating on the corridor to Djibouti (ERCA, 2017). Ownership of the trucking fleet is in the hands of (a) operators of individual trucks, (b) road transport companies, and (c) associations of individual truck owners. The truck companies and associations vary widely in size, and there is a preponderance of owners of individual trucks (as much as 90 percent).

It has become increasingly apparent that ESLSE's operational performance is far from best practice across all areas of operation, including shipping, freight-forwarding and terminal and port operations, resulting in both higher costs and lower quality logistics services (World Bank, 2019). The government is now keen to transform ESLSE into a world-class international logistics service provider, suited to a transforming economy.

A study by the Ethiopian Maritime Affairs Authority (EMAA) reported poor quality of the transport vehicles used in the Djibouti–Ethiopia corridor. Old vehicles dominate the corridor. Only 44 percent of the actual fleet on the road are younger than 10 years. About 24 and 32 percent of the vehicles are between 10 and 20 years old and more than 20 years old, respectively. These vehicles also have issues related with the equipment and their truck loads. Most vehicles are with flat-bed trailers. However, without locking pins which requires containers to be strapped to trailers with wires. This delays loading and unloading while adding weight to the vehicles and increases fuel consumption. Trucks that are designed to transport containers are also limited. The inertia in replacing the trucking fleet reflects a number of factors, including the low utilization of equipment, high import duties on trucks with an effective rate as much as 270 percent, and the limited use of long-term contracts.

Ethiopia faces two key challenges in improving the logistics sector. First, the country needs to increase the capacity, efficiency, and quality of existing services, which are related to transportation and customs clearance. Second, Ethiopia needs to broaden the range of logistics services that are available to serve modern manufacturing supply chains, including distribution, packaging, warehousing services, transport management services, supply chain consulting services, and inventory management. These all call for increased strategic investments in infrastructure and appropriate regulations that allow for dynamic, low-cost but higher-quality services.



## 5 POLICIES, REFORMS, INSTITUTIONS AND REGULATIONS

This section discusses policies, reforms and regulations related to trade and logistics in Djibouti and Ethiopia. It also presents the institutional arrangements in charge of trade and logistics.

### 5.1 Trade Policies and Reforms

#### 5.1.1 Trade and Logistics Policies and Strategies

Ethiopia lacks a comprehensive trade policy and strategy to guide the trade sector including exports and imports. Trade related interventions have given more weight to the export sector, and little attention has been given to domestic trade issues. The private sector has not been involved in trade policy formulation, identification of trade needs, implementation of trade-related projects and programmes (Ferede, 2019). The country has been engaging in different trade negotiations such as accession to the WTO, the creation of the African Continental Free Trade Area (AfCFTA), etc., but there is no consolidated trade negotiation strategy for the country. Reformative policies aimed at ensuring rapid integration into the multilateral trading system are not yet fully in place. Broad policy discretion over tariffs and other trade measures are in the hands of Ethiopia's policy makers.

In 2020, the Ministry of Transport prepared a national transport policy for the country to meet the increasing transport demand for the growing economy (Ministry of Transport, 2020). The policy covers road infrastructure, railway, maritime, air and other transport systems. In particular, the road transport is given due emphasis in the policy, focusing on passenger, freight, urban, rural, and non-motorized modes of transportation. In addition, the policy envisages the participation of the private sector in the infrastructure development.

The Government, through the EMAA, also developed a National Freight Logistics Strategy (NFLS). The strategy provides an assessment of Ethiopia's logistics sector, identifies the main logistics impediments, and provides key recommendations to transform the sector. The NFLS outlines key strategies along with corresponding interventions for implementation in five areas:

- improving logistics service offerings;
- improving trade finance, production, and the distribution network;
- improving and developing trade logistics facilities and infrastructure;
- implementing an efficient transit and trade facilitation; and
- setting up effective logistics governance.

The Ministry of Transport established a high-level governance structure to implement the NFLS in an integrated and coordinated manner. At the highest level, the logistics sector is overseen by the Ethiopia National Logistics Transformation Council, which is supported by a Logistics Transformation Office housed within the EMAA.

Ethiopia's trade costs are high both for imports as well as exports. The main effect of this is to reduce the share of two-way trade in its economic activity. Reducing these trade costs in a context of a high exchange rate and inadequate domestic supply capacity would predictably exacerbate the trade deficit and decimate domestic producers. Accordingly, from a sequencing perspective, the adjustments to the macroeconomic and microeconomic policy frameworks discussed above would

ideally be fast-tracked ahead of measures to lower trade costs which would expand the role of trade in the economy.

### 5.1.2 Recent Reforms and Initiatives

Table 2 presents reforms and initiatives that aim to improve the efficiency of the trade sector by the Government of Ethiopia.

**Table 2: Ethiopia’s Trade Logistics Reforms**

Reform Area	Reform	Benefit
<b>Efficiency Improvements</b>	Issuance of a new customs proclamation	The new proclamation incorporates modern and international principles of customs procedures and administration and is to a large extent, in line with the Revised Kyoto Convention (RKC), the recognized “blueprint” for modern customs legislation. The declaration and clearance provisions of the law, which are the most important from the perspective of trade facilitation, were based directly on the RKC.
	Revision to the use and application of the Risk Management Principle for import cargos	To lower the number of consignments that must undergo physical inspection, the Ministry of Revenues (formerly the Ethiopian Revenue and Customs Authority (ERCA)) has revised the use and application of the Risk Management Principle for import cargos. MoR has been implementing the risk management system. As a result of the reforms introduced for the risk management thresholds, the percentage of cargo that undergoes physical inspection has significantly reduced, from 57.2 percent to 44.4 percent.
<b>Interagency Cooperation</b>	MoU signed by Steering Committee members for Electronic Single Window (eSW) project.	The signing of the MoU by heads of the various agencies and ministries that will be affected by the eSW is an expression of commitment by all stakeholders to effectively implement the eSW.
<b>Logistics (freight and transit infrastructure, facilities, services, and processes)</b>	Construction by the Ethiopian Shipping and Logistics Services Enterprise (ESLSE) of a warehouse for containers at Modjo	The Modjo terminal has been operating for the last couple of years as a dry port for import containers unloaded in Djibouti and forwarded to Modjo by ESLSE’s multimodal unit. About half of Ethiopia’s inbound container traffic is handled in this terminal. Because the terminal had a considerable shortage of warehouses for containers, ESLSE began the construction of more warehouses (two have been completed and six others will be built).

Source: World Bank (2019). Ethiopia: WTO TFA Memo, Draft

**Electronic Single Window Project:** As part of easing the doing business environment, the Government of Ethiopia, supported by the Investment Finance Corporation (IFC) and the Investment Climate Facility for Africa (ICF), launched a new eSW in April 2020. Managed by the Ministry of Revenue, eSW aims to enhance the facilitation of the clearance processes for import, export, and transit of goods by automating the online submission of documents, thereby reducing the need for physical, manual and duplicate processes. Its implementation is expected to meet the needs of international trade stakeholders, both government agencies and private sector users, for a streamlined and coordinated preclearance process. The establishment of an electronic single window is also expected to play a key role in enhancing transparency for trade, which is important for easing the movement of critical supplies, especially during the existing corona virus pandemic. On other hand, heavy documentary requirements, high levels of physical inspection of imports,



lack of coordination among border agencies coupled with low levels of automation and uncompetitive trade logistics sector will increase the cost of doing business and delay of shipment. Consultations with stakeholders indicate that introduction of eSW has significantly improved efficiency such as reduction in time of release goods from 40 to 15 days. However, the system lacks some features. For example, inspection is not included in the system and the Ministry of Trade and Industry (MoTI) is also not linked with the system which is in charge of quality control.

**Cargo Tracking System:** The Ministry of Revenue (MoR) is in the process of installing a cargo tracking system for its main cargo corridor from Djibouti. The system aims to monitor the movement of trucks and to reduce the need for checkpoints and physical inspections. According to the Ethiopian Customs Commission (ECC), the tracking and tracing system has yet been functional as there are ongoing preparatory activities which need to be finalized to fully operationalize the system.

**Cargo Scanning:** The scanning machines resemble the Magnetic Resonance Imaging (MRI), a non-invasive imaging technology that produces detailed anatomical images without using radiation. The screening devices also employ a technique called computed tomography, the latest in imaging for baggage scanning. In addition, Ethiopian Customs Commission is using modern cargo scanning technologies to facilitate the international trade and to support foreign direct investment.

**Online Business Registration and Licensing Services (OBRLS):** This system introduced by MoTI enables traders to process the issuance and renewal of business registration and licensing online, i.e. it allows the business community to apply for business registration and license services virtually from anywhere in the country and beyond. The business community can now use the system to apply for registration and license services virtually from anywhere in the country and beyond using computers, mobile phones and other modern devices. The system is expected to improve competitiveness at global and continental level by reducing unnecessary hassles, cost, cumbersome bureaucratic procedures, and saving time for the business community. The new online portal has resulted in a significant drop in processing time and procedures in business registration and licensing. Once traders are connected with the eSW, the project is expected to reduce the need for them to obtain multiple copies of their certificates for trade transactions.

**Electronic Customs Management System (eCMS):** MoR has introduced a new Electronic Customs Management System (eCMS), which would help to comply with international customs standards. The technology aims to simplify customs control and clearance, maximize operational efficiencies and improve service delivery. The new system, which replaces the existing Automated System for Customs and Data (ASYCUDA++), fully started its operation at coordinating offices in Djibouti, Galaffi, Mile, Adama, Mojo, East Industry Park, Gelan, Addis Ababa-Kality and Bole-Lemi Industrial Park. In addition, Moyale and Metema Yohannes customs stations benefit from the new technology.<sup>13</sup> The new eCMS is more robust and allows integration and interfacing with all technologies and systems in use as well as those to be introduced as part of the wider program of reform. The system allows online application and submission of required documents. Consultations with stakeholders indicate that use of different systems between Ethiopia and Djibouti has become a challenge. ASYCUDA++ for Djibouti and Electronic Customs Management System for Ethiopia create compatibility and coordination problems. In addition, working time differences at many cargo depots create harmonization challenges, leading to separate inspections of the same container. This could be addressed through border agency coordination

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<sup>13</sup> “Ethiopia: ERCA implements new customs management system”, tralac trade law centre, 23 August 2018, <https://www.tralac.org/news/article/13398-ethiopia-erca-implements-new-customs-management-system.html> [accessed 25 March 2021]

which should include synchronized working hours, joint inspection procedures, and other procedures that affect the clearance process.

The various technology platforms are interlinked via the eCMS. Figure 16 presents the interface between the various platforms.

**Figure 16: eCMS as an overarching platform**



Source: ERCA (2017)

**5.2 Institutions in Ethiopia**

Table 3 presents a summary of domestic institutions involved in import and export trade in Ethiopia along with their responsibilities and duties. A number of institutions are involved in the trade sector in Ethiopia.

**Table 3. Ethiopian Agencies Involved in Importing and Exporting<sup>14</sup>**

Regulatory agency	Area regulated (related to imports and exports)	Responsibilities and permits issued
<b>Ministry of Trade and Industry (MoTI)</b>	All import and export goods	<ul style="list-style-type: none"> <li>Regulates external and domestic trade;</li> <li>Issues export and import licenses;</li> <li>Leads and monitors bilateral and multilateral trade negotiations.</li> </ul>
<b>Ethiopian Investment Commission (EIC) and regional investment bureaux</b>	Goods imported and exported by investors	<ul style="list-style-type: none"> <li>Issues and renews investment permits;</li> <li>Issues customs duty-free permission letters;</li> </ul>
<b>National Bank of Ethiopia (NBE) and commercial banks</b>	Foreign currency	<ul style="list-style-type: none"> <li>Registers sales contract agreements;</li> <li>Issues export bank permits;</li> <li>Issues foreign currency approvals;</li> <li>Issues bank import permits for letters of credit and advance payments;</li> <li>Approves purchase orders for cash against documentation (CAD).</li> </ul>

<sup>14</sup> A pre-import permit must be obtained for restricted goods for safety, security, environmental, health, or other reasons. For example, imports of goods that require pre-import permit include pharmaceuticals, medicines, veterinary drugs, information and communication technology (ICT) equipment, and radiation-emitting equipment and machinery.

Regulatory agency	Area regulated (related to imports and exports)	Responsibilities and permits issued
<b>Ministry of Agriculture (MoA)</b>	Import of plants, seeds, plant products, pesticides, and fertilizers Export of animal feed, live animals, and meat	<ul style="list-style-type: none"> <li>• Phytosanitary certificates for re-export</li> <li>• Veterinary health certificates;</li> <li>• Export permits for animal feed;</li> <li>• Issues pre-import permits for plants and plant products;</li> <li>• Issues pre-import permits for fertilizers and pesticides;</li> <li>• Issues import release permits for plants and plant products;</li> <li>• Issues import release permits for goods on the list of registered pesticides.</li> </ul>
<b>Ministry of Mines and Petroleum (MoMP)</b>	Export of mineral products	<ul style="list-style-type: none"> <li>• Issues export permits;</li> <li>• Issues customs duty and tax-free support letters.</li> </ul>
<b>Ethiopian Conformity Assessment Enterprise (ECAE)</b>	Conformity with accepted standards	<ul style="list-style-type: none"> <li>• Issues laboratory test reports;</li> <li>• Produces inspection reports.</li> </ul>
<b>Federal Transport Authority (FTA)</b>	Import of vehicles	<ul style="list-style-type: none"> <li>• Regulates the transport sector;</li> <li>• Issues cross-border transport permit;</li> <li>• Provides license to transport operators;</li> <li>• Provides competence certificate;</li> <li>• Controls safety standards;</li> <li>• Issues vehicle import permits.</li> </ul>
<b>Ethiopian Radiation Protection Authority (ERPA)</b>	Import of radiation –emitting equipment and machinery	<ul style="list-style-type: none"> <li>• Pre-import permits;</li> <li>• Issues import release permits;</li> <li>• Issues export release permits and transport licenses.</li> </ul>
<b>Oromia Islamic Affairs Supreme Council (OIASC)</b>	Export of meat	<ul style="list-style-type: none"> <li>• Issues halal certificates.</li> </ul>
<b>Food, Medicine, and Health Care Administration and Control Authority (FMHACA)</b>	Import and export of drugs, medical supplies and instruments, baby food, supplements, food and cosmetics	<ul style="list-style-type: none"> <li>• Issues import permits;</li> <li>• Issues export permits;</li> <li>• Issues import release permits;</li> <li>• Issues health certificates;</li> <li>• Monitors registered drugs;</li> </ul>
<b>Veterinary Drug and Feed Administration and Control Authority (VDFACA)</b>	Import and export of veterinary drugs and animal feed	<ul style="list-style-type: none"> <li>• Issues import permits;</li> <li>• Issues import release permits;</li> <li>• Issues export permits;</li> <li>• Issues list of registered drugs.</li> </ul>
<b>Information Network Security Agency (INSA)</b>	Import of security and communication equipment	<ul style="list-style-type: none"> <li>• Issues import permits;</li> <li>• Issues import release permits;</li> <li>• Issues re-export permits.</li> </ul>
<b>Ministry of Innovation and Technology (MoIT)</b>	Import and export of telecommunication and network equipment	<ul style="list-style-type: none"> <li>• Import permits;</li> <li>• Issues export and re-export permits;</li> <li>• Issues customs duty and tax-free permits.</li> </ul>
<b>Ethiopia Chamber of Commerce &amp; Sectoral Association (ECCSA)</b>	Goods exports to Common Market for Eastern and Southern Africa (COMESA) and to countries trading on a most favoured nation (MFN) basis	<ul style="list-style-type: none"> <li>• Issues COMESA certificates of origin;</li> <li>• Ordinary certificates of origin.</li> </ul>

Source: Based on Ethiopian Customs Guide (2017); UNCTAD (2018)

### 5.3 Institutions in Djibouti

There are different institutions involved in the export and import of goods and services in Djibouti. The two institutions most involved in import and export are the Djibouti Customs and the Djibouti Ports and Free Zones Authority (UNCTAD, 2018).

The Djibouti Customs enforces laws and regulations applicable to the movement of goods in and out of the national territory. It monitors import, export, and transit of goods, and collects relevant duties (customs revenue is an important contributor to the state budget). It also combats fraud and

of the smuggling of heavily taxed products such as alcohol and tobacco and protects the economy from unfair practices such as import dumping and counterfeiting.

The Djibouti Ports and Free Zones Authority (APZF) is the governing authority of all ports and free zones in Djibouti. The Port of Djibouti, defined as Port Autonome International de Djibouti (PAID), is owned and operated by APZF. The Doraleh Container Terminal (DCT) in Doraleh is a 30-year concession developed DPW. Investment in modern facilities help improve Djibouti's position as a gateway for other landlocked countries in the region. The National Investment Promotion Agency (NIPA) is responsible for providing a one-stop shop for business registration. These and other reforms (e.g. tax reforms, Code of Good Governance, etc.) are expected to positively impact the business environment.

## 6 OTHER TRADE FACILITATION MEASURES

Despite successive rounds of tariff reforms, efforts to boost exports of manufactured goods have so far had relatively little impact. For example, container goods take significantly longer to reach Ethiopia than they do to get to Rwanda, another landlocked country in East Africa. In addition to being a landlocked country, instability inside and along its borders makes Ethiopia highly dependent on the port of Djibouti for access to the sea. This implies that it is necessary to look into non-tariff measures in relation to international trade. This section assesses and characterizes non-tariff measures and how they affect trade both in Ethiopia and its trade partners.

### 6.1 Conceptualizing Non-tariff Measures

Non-tariff measures (NTMs) encompass a range of government actions affecting trade. According to UNCTAD, NTMs are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both. NTMs may aim to support domestic industries, with no direct intent to undermine international competition; or they may be non-protectionist but still deliberately restrictive of certain trade. For example, NTMs in agriculture may include quotas, health and environmental regulations, licensing requirements, and mandatory product inspections. Note that food standards aim to protect consumers and preserve the environment. If the aim is to protect domestic industry, then NTMs may be disputed through the WTO; where NTMs inhibit trade, they become non-tariff barriers (NTBs).

NTMs are widely understood to raise the cost of doing business and to be more challenging to remove than tariffs. Quantification and measurement of NTMs are generally difficult as some of them are qualitative in nature. For example, it is difficult to quantify the impact of licensing requirements or procedures, duplicate health certificates, or distribution restrictions.

**Table 4: Characterizing NTMs: Purposes, Examples, and Consequences**

Type	Purpose	Examples	Potential Consequence
<b>Protectionist policies</b>	To help domestic firms and enterprises at the expense of other countries.	Import quotas; local content requirements; public procurement practices.	Challenges levied at WTO and other trade forums.
<b>Assistance policies</b>	To help domestic firms and enterprises, but not at the expense of other countries.	Domestic subsidies; antidumping laws; industry bailouts.	Adversely affected countries may respond to protect themselves (i.e., imposing countervailing duties and subsidies).
<b>Non-protectionist policies</b>	To protect the health and safety of people, animals, and plants; to protect or improve the environment.	Licensing, packaging, and labeling requirements; sanitary and phytosanitary (SPS) rules; food, plant and animal inspections; import bans based on objectionable fishing or harvesting methods.	Limited formal consequences lead to efforts to establish common standards or mutual recognition of different standards.

Source: Nathan Associates Inc. (2013)

Broadly, NTMs can be divided into two, namely technical and non-technical measures (UNCTAD, 2012). The former may include sanitary and phytosanitary (SPS) measures (such as rules to protect plant, animal and human health), standards (e.g. rules for product weight, size, packaging, ingredient or identity standards); mandatory labeling; shelf-life restrictions; and import testing and certification procedures (Table 5). The latter includes bureaucratic restrictions, subsidies or other legal measures that hinder trade, such as failure to provide adequate and effective intellectual property protection. Both types may have legitimate purposes, especially in the eyes of enforcers,

but both can also be misused to covertly impede trade (i.e. be NTBs).

**Table 5: Classification of Non-Tariff Measures - Examples**

Type	Technical	Non-technical
<b>Imports</b>	<ul style="list-style-type: none"> <li>• Sanitary and phytosanitary (SPS) measures</li> <li>• Technical barriers to trade</li> <li>• Pre-shipment inspection</li> <li>• Other formalities</li> </ul>	<ul style="list-style-type: none"> <li>• Contingent trade and protective measures</li> <li>• Nonautomatic licensing and quantity control</li> <li>• Price control measures, additional taxes and charges</li> <li>• Finance measures</li> <li>• Measures affecting competition</li> <li>• Trade-related investment measures</li> <li>• Distribution restrictions</li> <li>• Restriction on post-sales services</li> <li>• Government procurement restrictions</li> <li>• Subsidies</li> <li>• Intellectual property</li> <li>• Rules of origin</li> </ul>
<b>Exports</b>	Export measures	

Source: UNCTAD (2012)

**6.2 NTMs affecting Trade in Ethiopia**

Ethiopia benefits from a number of preferential trade agreements, which allow virtually duty-free and quota-free access for its exports to markets of many developed and leading developing countries. But in addition to its geographical disadvantages, Ethiopia, like many developing countries, faces significant NTMs, which have gained increasing importance in global commerce with the general decline of duties. NTMs refer to policy measures, other than customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both (ITC, 2018).

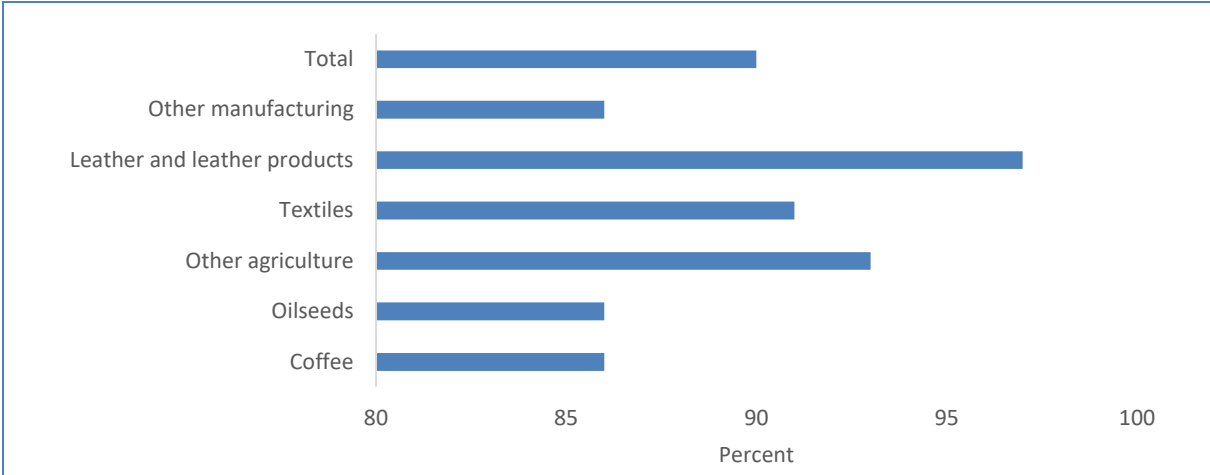
The following review of NTMs affecting trade in Ethiopia is based on a study conducted by the International Trade Centre (ITC) in 2018. The ITC study is based on a survey of exporters and importers. Exporting companies experience more difficulties compared with importing companies. For ease of interpretation and analysis, the assessment of NTMs is done for exports and imports.

**6.2.1 NTMs Facing Exporters**

About 90 percent of exporting companies experience burdensome NTMs, a considerably higher rate than elsewhere in sub-Saharan Africa. In particular, about 97 percent of respondents in the leather and leather products sector reported difficulties with NTMs when exporting. A large share (86 percent) of exporters of other products (such as coffee, other oilseeds and other manufacturing) also face burdensome NTMs (Figure 17).

Not all companies are equally affected by NTMs. About 92 percent of exporters in medium and large companies faced obstacles to their trading operations compared with micro and small enterprises. Given that larger companies tend to export more products and to more destinations, it is likely that they experience difficulties during their trade relationships.

**Figure 17: Share of surveyed exporting companies affected by burdensome NTMs by sector**



Source: ITC (2018)

Ethiopian exporters face regulatory challenges in destination countries, transit countries and their home country. Exporters reported conformity assessment procedures imposed by partner countries and private standards as main obstacles (Table 6). Conformity-related regulations can cover different measures including testing, product certification, traceability information such as information on the origin of materials and parts and production stages, and quarantine requirements. Companies need to refer to accredited third parties for product certification and testing which result in related procedural obstacles due to lack of facilities (accreditation for some procedures but not for all), or lack of appropriate equipment, delays (often due to the limited facilities), additional costs, or administrative burdens. Exporters also reported lack of quarantine facilities in meeting quarantine and traceability requirement for export of live animals to Middle Eastern countries.

About 30 percent of the burdensome NTM cases relate to Ethiopian national regulations on exports. Especially non-technical, export-related regulations are a bottleneck for exports. Such measures include export licences, export subsidies, export price controls and other export-related procedures (export clearance).



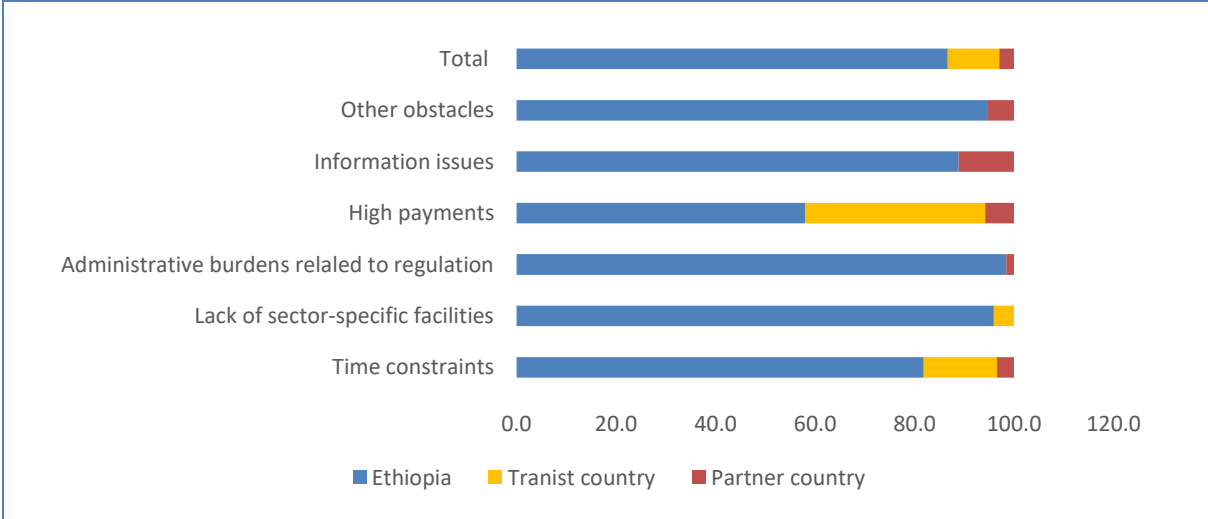
**Table 6: Main Categories of NTM-Related Trade Obstacles Affecting Exports**

Non-tariff measure	Measure name	Breakdown	Classification	
Conformity assessment	Conformity assessments procedures	20.0%	Technical measures	
	Quarantine	8.2%		
	Traceability information	1.1%		
Technical requirements	Tolerance limits	2.9%		
	Product identity, quality performance	1.9%		
	Final product treatment	0.8%		
	Import prohibition or restrictions	0.4%		
	Labelling, marking, packaging	0.2%		
Rules of origin	Rules of origin and related certificate of origin	5.0%		Non-technical measures
Pre-shipment inspection	Pre-shipment inspection and other entry formalities	2.7%		
Private standards	Product identity, quality performance	12.4%	Private standards	
	Conformity assessments	9.2%		
	Labelling, marking, packaging	2.9%		
	Traceability information	1.1%		
	Tolerance limits	0.6%		
Other export measures	Export clearance	12.6%	Export-related measures	
Other non-technical export measures	Export licences	4.2%		
	Export subsidies	3.2%		
	Export price control measures	2.3%		
Technical export requirements	Export inspection/certification required by the exporting country	8.2%		

Source: ITC (2018)

Procedural obstacles (i.e. implementation of NTMs) are considered burdensome by the vast majority (about 90 percent) of exporters, indicating a scope for gains related to the mainstreaming and simplification of NTM procedures. Note that about 86 percent of procedural obstacles mainly occur in Ethiopia and in Ethiopian institutions, suggesting scope for improvement mainstreaming and simplification of NTM procedures (Figure 18). It should be noted that about 85 percent of Djibouti’s port traffic is in transit to or from Ethiopia (World Bank, 2013).

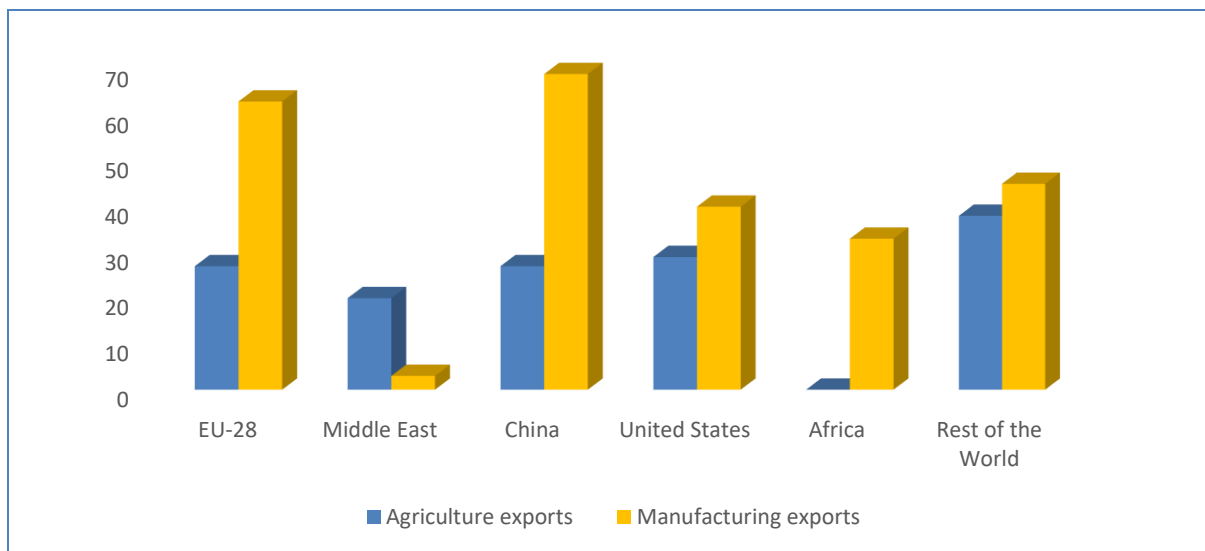
**Figure 18: Origin of procedural obstacles as reported by exporters (Percent)**



Source: Based on ITC (2018)

Figure 19 presents NTMs faced by exporters in destination countries. Foreign regulations and standards affect manufacturing more than agriculture. For the EU and China, 63 percent and 69 percent of Ethiopian exports of manufactured goods are affected by at least one burdensome NTM or private standard at destination.

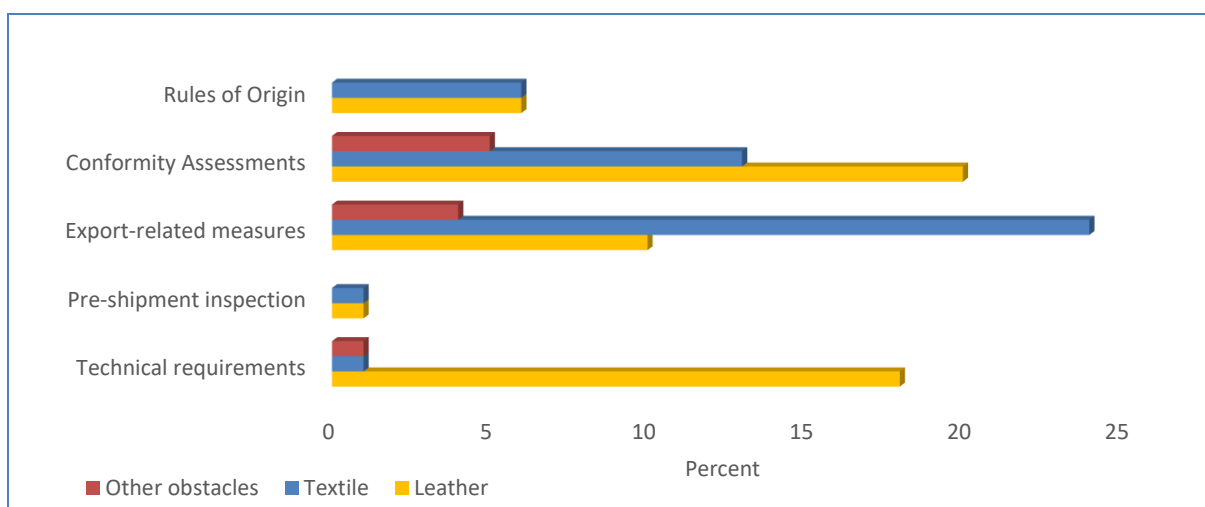
**Figure 19: Exports and NTMs applied by partner countries**



Source: ITC (2018)

NTMs commonly perceived as burdensome for manufactured products include conformity assessment and export-related measures. Rules of origin represent 10 percent of all cases reported. Leather and textile products are the most affected manufacturing sectors and together they concentrate 90 percent of all NTM reported cases. All manufactured products appear to be affected by similar regulations, except for technical requirements, which mostly affect leather products (Figure 20).

**Figure 20: Manufacturing export sectors and most common NTMs**



Source: ITC (2018)

Table 7 presents procedural obstacles in manufacturing exports. More than 40 percent of the procedural obstacles concern delays, with the former ERCA (17 percent), the Ethiopian Ministry of Trade (now Ministry of Trade and Industry) (7 percent) and private certification agencies (7

percent) being the most cited. Numerous administrative ‘windows’ (15 percent), limited facilities for certification (12 percent), high certification fees (9 percent) and lack of or limited information dissemination (8 percent) also emerge as common issues for manufacturing exporters.

**Table 7: Procedural Obstacles for Manufacture Exports and Associated Regulating Entities**

Most common export procedural obstacle	Percent	Most common originating entity	Percent
Delays	42	Ethiopian Revenues and Customs Authority	17
		Ethiopian Ministry of Trade	7
		Private Certification Agency	7
Numerous administrative windows	15	Ethiopian Ministry of Trade	7
		Ethiopian Revenues and Customs Authority	3
Limited facilities related to certificates/regulation	12	Ethiopian Revenues and Customs Authority	6
		Ethiopian Standards Agency	2
Unusually high fees and charges	9	Private Certification Agency	8
		Ethiopian Standards Agency	1
Information on selected regulation is not adequately published and disseminated	8	Ministry of Agriculture	7
		Ethiopian Revenues and Customs Authority	1
Others	14	Others	34

Source: ITC (2018)

**6.2.2 NTMs Facing Importers**

For imports, the proportion of companies affected by NTMs ranges between 53 percent and 67 percent. Unlike exporters, all burdensome NTMs reported by Ethiopian importers result from Ethiopian regulations. These are related to non-technical measures such as pre-shipment inspection, conformity assessments and other entry formalities as predominant obstacles for importers (Figure 21). Again, about 79 percent of NTMs are considered burdensome due to procedural obstacles.

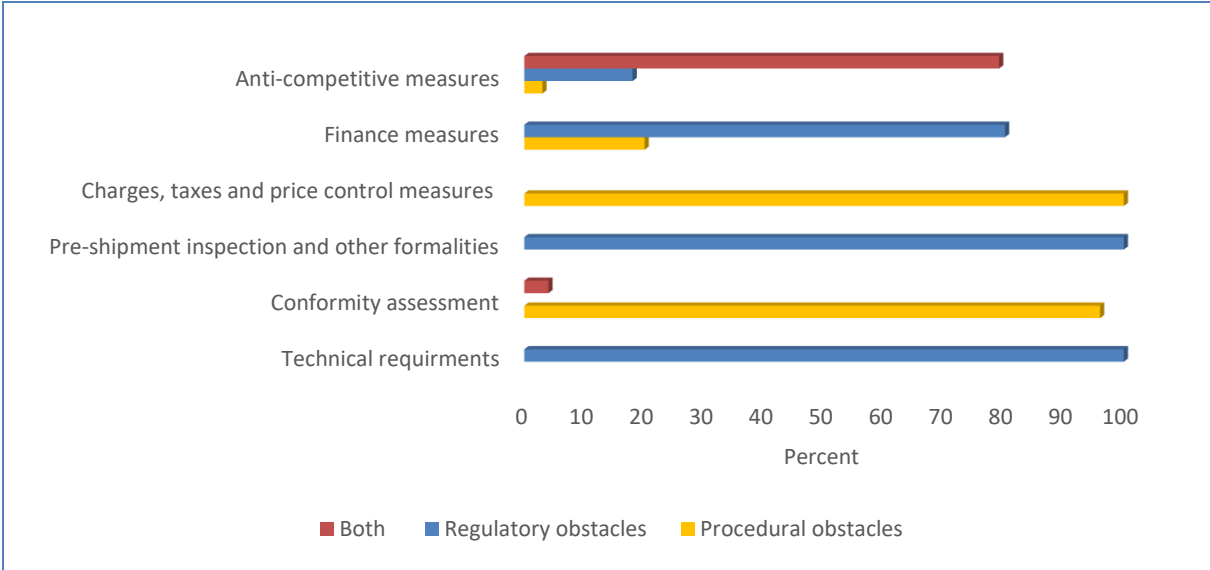
**Figure 21: Burdensome NTMs on Ethiopian imports**



Source: ITC (2018)

The primary cause of difficulties varies across different types of NTMs. Conformity assessments and pre-shipment inspections are perceived as burdensome because of the procedural obstacles. Note that anti-competitive measures show a more mixed picture as 79% of cases reported a combination of strict regulation and related procedural obstacles (Figure 22). Delays and lack of appropriate facilities are the most frequently faced procedural obstacles for importers. Some administrative burdens can also be found in the pre-shipment inspections. time constraints are the most prevalent issue for imports, followed by the lack of sector-specific facilities, administrative burdens and information issues.

**Figure 22: NTMs as perceived burdensome by importers, by NTM type**

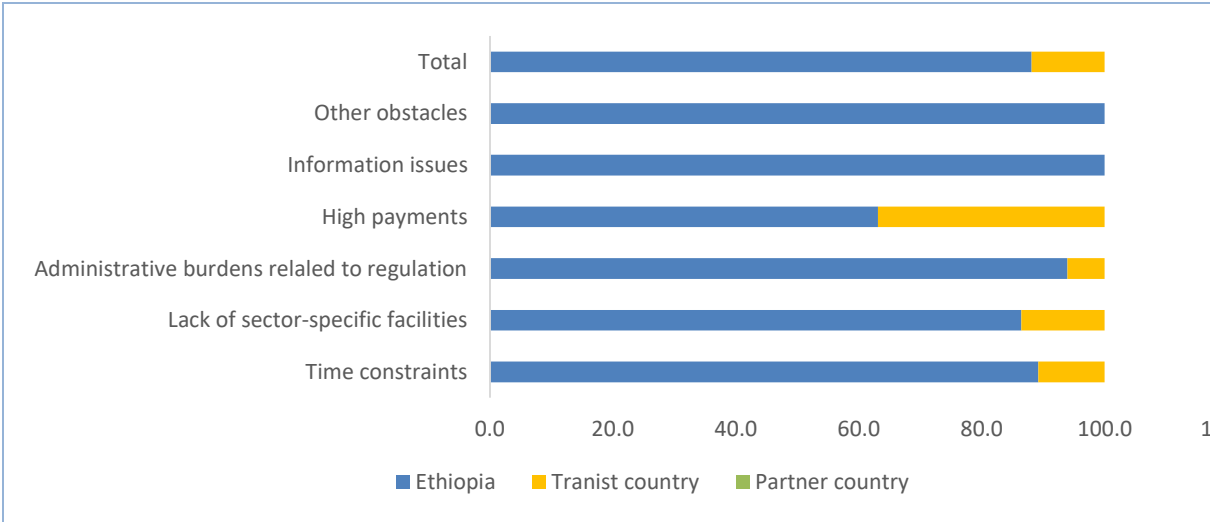


Source: ITC (2018)

NTBs vary by sector with the lowest rate observed in the manufacturing sector. Agricultural products tend to be more affected by burdensome NTMs than other importing sectors. Among importers, large (62 percent) and small (63 percent) companies are the most affected, while medium-sized (48 percent) companies report fewer burdensome situations. This can be explained by a learning process coupled with the fact that large companies are more diversified in their imports.

A large share (88 percent) of procedural obstacles occur in Ethiopia, with the rest occurring in a transit country, Djibouti (Figure 23). Procedural obstacles in Djibouti are related to limited capacity of the port, which creates delays for Ethiopian importers.

**Figure 23: Location of procedural obstacles as reported by importers (Percent)**



Source: Based on ITC (2018)

Interestingly, a large number of procedural obstacles (POs) occur at customs (Table 8). The most frequent difficulties on the import side are delays in customs inspections and clearance procedures due to lack of staff, strictness in controls, several ‘windows’, language issues, increased storage costs and even changing rules. Overlapping POs in customs inspection and clearance is the reason why

the Ethiopian Revenues and Customs Authority (now the Ministry of Revenues and Ethiopian Customs Commission) is at the top of the list of agencies cited by importers. Importers also identify lack of staff, staff training and well-equipped facilities as the main challenges to be addressed.

For agricultural products, long procedures are mentioned for goods requiring testing and certification, such as seeds, herbicides or insecticides. The same holds for drugs and health related goods controlled by the Ethiopian Food, Medicine and Health Care Administration and Control Authority.

**Table 8: Agencies and Related POs Reported in NTM Cases on Imports**

Agency/country Type of procedural obstacle	Time constraints	Lack of sector-specific facilities	Administrative burdens related to regulation	Informal or unusually high fees or payments	Information / transparency issues	Other obstacles
Ethiopian Revenues and Customs Authority	Red	Red	Orange	Yellow	Yellow	Yellow
Ethiopian Shipping and Logistics Services Enterprise	Orange	Orange	Blank	Yellow	Blank	Blank
Ethiopian Ministry of Agriculture and Natural Resources	Yellow	Yellow	Yellow	Blank	Blank	Blank
Food, Medicine and Health Care Administration and Control Authority	Yellow	Yellow	Blank	Blank	Blank	Blank
Other national authorities	Yellow	Green	Green	Green	Green	Green

**Note:** Most frequent incidents of POs are coloured in red while POs that are only reported seldomly are coloured in green. The colour spectrum from red to green passing through yellow provides an indication of frequency of cells. Blank cells indicate non-occurrence of POs.

Source: ITC (2018)

## 7 CONCLUSIONS AND RECOMMENDATIONS

In international trade, trade facilitation and logistics are key for improving the competitiveness of countries in relation to their global competitors. The modernization of trade facilities and the logistics sector has implications for both state-owned enterprises and the private sector. As a landlocked country, Ethiopia uses the Port of Djibouti as the main gateway for its international trade, and hence the importance of the Ethio-Djibouti corridor.

In recent years, there have been significant investments in the logistics infrastructure in both Djibouti and Ethiopia including construction of dry ports in Ethiopia. However, infrastructure investment on its own, although important, is not enough to reduce overall logistics costs in an economy. A significant part of the cost and time savings will come from changes to the logistics system that reduce transit time on all modes of transport.

The present trade facilitation and logistics study aims to diagnose the state of trade facilitation and the logistics industries and their impact on availability and cost of trading across borders. It assesses features of trade facilitation and logistics from both the supply side (such as policies and institutions) as well as from the demand side (e.g. trading companies). The study addresses a number of issues. First, it assesses the progress regarding the implementation of trade-facilitation measures put in place in both Djibouti and Ethiopia. Second, it identifies gaps and missing links in the trade facilitation measures to enhance trade flows. Finally, it assesses the logistics performance of Djibouti-Ethiopia corridor that links Addis Ababa with the ports of Djibouti.

Although efforts have been made to improve the business environment, the performance of Ethiopia's international trade remains low. This is related to a number of constraining factors from both the supply and demand sides. The cost of doing business in Ethiopia is high, as reflected by the low rank in ease of doing business and logistics performance index. Ethiopia lags behind in some specific ease of doing business indicators such as starting a business, getting credit, trading across borders, and paying taxes. The country's overall rank is far below the Sub-Saharan African average ranking and well-performing peers such as Rwanda (World Bank, 2020). Ethiopia's rank in the Trading Across Border sub-index is very low and this is related to burdensome customs clearance process and additional required imports and exports documentation. Time to clear exports in Ethiopia remains one of the highest in the region. Ethiopia experiences high logistics costs which reduce the country's competitiveness compared with its competitors. Poor trade logistics tends to erode the benefits of lower labour cost and increases transaction costs, thereby adversely affecting competitiveness of private firms.

The assessment identifies heavy documentary requirements, high levels of physical inspection, lack of coordination among border agencies coupled with low levels of automation and uncompetitive trade logistics sector are drivers of increased cost of doing business and delay of the shipment. Coordination failures undermine the efficiency of the trade logistics chain.

Outdated and overly bureaucratic border clearance processes imposed by customs and other agencies are now seen as posing greater barriers to trade than tariffs do. Cumbersome systems and procedures and poor infrastructure both increase transaction costs and lengthen delays to the clearance of imports, exports, and transit goods. Such costs and delays make a country less competitive—whether by imposing deadweight inefficiencies that effectively tax imports, or by adding costs that raise the price of exports. Inefficient border management deters foreign investment and creates opportunities for administrative corruption.

The main challenges include (i) reliance on paper documents in the exchange of official information between government agencies and the private sector, which is slow, unpredictable, and prone to

errors and omissions; (ii) lack of real-time cargo tracking along the logistics supply chain; (iii) inefficient in-house business processing of information, which delays decision making and release of information/decisions; and (iv) the lack of modern port management systems, especially in dry ports. ICT solutions to these problems, which are widely used and seen as the backbone of logistics in other countries, have yet to be broadly implemented. There is no integrated approach to ICT in logistics across stakeholders.

Recommendation:

- Invest in and make use of ICT solutions in the management of logistics including cargo tracking, business processing and port management to maximize efficiency in trade.

The use of different customs management systems (ASYCUDA++ for Djibouti and Electronic Customs Management System for Ethiopia) creates compatibility and coordination problems. In addition, working time differences at many cargo depots create harmonization challenges, leading to separate inspections of the same container.

Recommendation:

- This could be addressed through border agency coordination which should include joint inspection procedures, and other procedures that affect the clearance process.

Lack of facilities and readiness to handle inbound and outbound railway traffic. Underinvestment in facilities and equipment, poor operational procedures and control, and lack of a yard management system are responsible for the excess time for truck turnarounds. For bulk imports, the key weakness is the lack of storage and handling facilities in Ethiopia.

Recommendations:

- This requires beefing up investment in facilities and equipment to effectively manage and speed customs clearance.
- There is also a need to coordinate border management through information sharing, harmonization of procedures and close interagency cooperation between the two countries.

Cumbersome procedures exist for obtaining cross-border road transport permits allowing transportation of cargo in neighbouring countries.

Recommendations:

- Development of a bilateral agreements between the two countries allowing truckers to move on the basis of a permit issued from the authorities of the country of origin of the shipment (e.g. Ministry of Transport).
- Adoption of joint time release protocols by customs for the coordinated identification and assessment of the performance of customs and other border agencies.

It should be noted that perceived barriers to trade by the private sector are not the official regulations but their accompanying procedural obstacles and these are located in Ethiopia which provide the opportunity to internally address interventions in the domestic business environment.

Recommendations:

- Note that procedures rather than regulations are the key obstacles to trade which calls for



mainstreaming and streamlining procedures related to NTMs that would offer scope for large gains.

- Establish a National Monitoring Committee (NMCs) and National Trade Facilitation Committee (NTFCs) with the participation of the private sector.

Pre-shipment Inspection (PSI) and mandatory testing and verification requirements for products to be imported are another challenge mentioned.

Recommendation:

- Adoption of a mutual recognition agreement or equivalence agreements by the two countries, allowing the products that have been tested in the exporting country to be accepted by the importing country with minimal testing or certification.

Insufficient coordination in border agencies (e.g. Customs, Immigration, Police, veterinary, sanitary and phytosanitary authorities, Bureaus of Standards, etc.) causes delays and additional costs.

Recommendation:

- Establishment of a joint Border Coordination Committee both countries to oversee and address border coordination issues.

The need for traders to carry out multiple documentary transmissions for their cross-border transactions also creates delays and additional costs.

Recommendation:

- Creation of electronic linkages between the national SWs between the two countries to allow traders to submit electronically one set of documentation that could be used as both entry and exit documentation in the importing and exporting country.

Transport costs are high due to not well-maintained and insecure roads.

Recommendation:

- There is a need to strengthen the implementation of a Road Management Information System (RMIS) for monitoring the status of trade corridors, allowing roads and traffic authorities to rapidly intervene in case of incidents, breakdowns, or other needs, and to road users to receive real-time information on traffic and on the status of roads.

Weak human capacity is a challenge to effectively manage logistics and trade facilitation.

Recommendations:

- There is a need to develop a tailored capacity building programme for customs and port officers and managers in different areas including customs management, use of ICT, port management, NTMs and other trade protocols from an international perspective.
- Equally important, tailored training programmes need to be designed for the private sector actors on the evolving nature of customs and port procedures.

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