

Federal Democratic Republic of Ethiopia National Logistics Sector Policy



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National Logistics Sector Policy

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DEFINITION

FOB (Free On Board): is a an international shipment term used to indicate that the buyer uses his/her preferred carrier to deliver goods from his/her preferred loading port to his/her preferred destination sea port.

CIF (Cost Insurance Freight): is an international shipment term used to indicate that the seller selects a carrier to deliver goods from the preferred port of loading by the buyer to the preferred destination port of the buyer.

SCA (Slot Charter Agreement): means a charter party with different shipping companies whereby the shipper leases one or more slots, aboard a container ship to deliver goods. Each slot will be capable of holding at least a 20-foot container.

Shippers Council: is a council composed of importers, exporters and logistics service providers. It is a joint arrangement between the private sector and government to monitor different logistics related to prices and delay.

Acronyms

ESLSE = Ethiopian Shipping and Logistics Service Enterprise

NVOCC = None Vessel Owner Common Carrier

IMO = International Maritime Organization

FOB = Free on Board

CIF = Cost, Insurance and Freight

FOREWORD

The role of logistics in our day-to-day lives cannot be overemphasized. Logistics plays a key role in delivering basic necessities, such as food, allowing people to survive and flourish. The logistics sector underpins the movement of key inputs and outputs of our economy, such as exporting our agricultural and industrial products to the international market as well as importing vital inputs, such as fertilizer, fuel, and machineries, for our agriculture and manufacturing sectors, which are crucial for our country's development.

For a country that is landlocked with a population size of over 100 million and growing, and highly reliant on maritime ports in neighboring countries for its import and export, the quality and effectiveness of the logistics sector is essential. In recognition of this vital role and to fully harness its potential, the Ministry of Transport has launched various initiatives aimed at improving the logistics sector.

We have embarked on the modernization of the entire logistics sector, a challenging but crucial endeavor. This policy identifies strategies as well as clear implementation pathways that will support our ongoing modernization effort. This national logistic policy has been prepared with the aim of transforming the sector's leadership and institutional alignment for effective and quality service delivery, improved private sector's involvement in the expansion and building of key infrastructures, enhanced sectorial competitiveness and provision of opportunities for job creation, particularly for the youth.



By leveraging our geo-political position, technological innovations, and strong dedication for change and growth, and by diligently implementing the policy's key strategies and implementation tactics, our vision is to position Ethiopia as an East African logistic hub and transform our logistic sector into a leader on the continent. .

I invite all stakeholders, in particular the private sector, development partners and all concerned citizens, to own this policy and join us in our effort to transform the logistics sector for a better and brighter tomorrow.

Dagmawit Moges,
Minister, FDRE Ministry of Transport

INTRODUCTION

The logistics sector in our country is a service sector which has earned relatively little attention for a long period of time. The effectiveness and efficiency of the logistics system is one of the determinants for a sustainable and long-term economy of a particular country.

It's over the past few years that the logistics service in Ethiopia, as one of the service sectors, has gained special attention. This indicates that the logistics sector in our country is not well developed. In contrast to the economic growth and need, the sector thus needs a lot of improvement.

In order to lead the logistics service sector systematically, make it efficient and support the economy, it is imperative to formulate and implement the National Logistics Policy which sets clear policy directions. So far, implementation of the logistics system has not been supported by clearly set policy directions, hence, the service lacks integration and competition and is not supported by information technology systems. As a result, information flow which has great importance for logistics service, is not robust and fails to harness the benefits of competitive engagement. Thus, to meaningfully contribute to the economic growth, the logistics sector needs fundamental improvement.

In 2011 EC, the government approved The Logistics Strategy Document to modernize the sector and smoothly and efficiently operate economic activities. The Logistics Strategy Document indicates policy issues as a way forward and as per the direction set by the strategy. It has become important to determine and clearly set policy issues and directions in the logistics sector. This has necessitated the formulation of this policy document.

This policy document complies with and guides the implementation of the Logistics Strategic Document.

Therefore, subject to the applicability of the Logistics Strategic Document, this policy shall be applied to modernize the Ethiopian logistics sector so that the sector provides efficient service and contributes to the growth of the national economy.

PART ONE

GENERAL PROVISIONS

1.1. General Description

As indicated in the introductory part, the logistics service in our country has gained significance over time as it is a service sector that drives the economy. Recently, specific focus is given to the logistics sector as it operates as a standalone service sector.

The sector has been deprived of the necessary attention, though a number of reasons can be mentioned of which the primary reason is the misconception of the significant contribution the logistics sector has on the overall economic growth. In addition, existing situation of our country can be cited as another limiting factor. For example, the existence and integration of proper infrastructure such as road, railway, and dry ports and distribution centers facilitates logistics services. The road and rail infrastructure in our country has not been well developed in terms of quality, coverage and integration. This has limited the development of the logistics sector.

On the other hand, production centers, markets or manufacturing stations using these products as an input are not conveniently linked to facilitate marketing activities. Therefore, the logistics system is executed in unorganized manner.

There are also limitations in export activities and the services lacked modern and efficient procedures. Specifically, information flow related with cargo system, warehousing, packaging, and freight forwarding were not given due attention. The resources that the logistic service operators have at their disposal are not well organized and integrated and smooth information flow hardly exists.

There is limitation in linking and integrating trained work force and information technology with the ever-increasing technological demand in the sector.

Unless there is fundamental improvement in the logistics system, the system itself will become a bottleneck rather than fostering economic growth. Hence, this policy, among other things, shall be used to solve this fundamental problem.

Though the logistics sector is operating with limited implementation capacity, this does not rule out the role the sector played to enhance the economy of our country to date. Our logistics service system has greatly contributed to help meet the Growth and Transformation Plan/GTP/. One of the goals of the GTP is to enhance foreign trade. The logistic system has played a significant role in achieving this. Logistics systems include cargo transport, customs forwarding and port services and is supported by clear and efficient information system. Therefore, the logistics service system has had significant contribution to help meet the GTP.

Our logistics system plays a vital role to run the national economy and is rendering wide ranging activities. Agriculture is the backbone of our economy and the logistics service delivers the required amount of inputs to the agriculture sector, market and end users. Moreover, the sector forwards inputs and outputs to and from the manufacturing industry, fosters import and export activities.

However, the economy needs robust logistics system and to realize competitive services a number of activities need be undertaken. This policy document is therefore prepared to give direction to logistic service systems.

1.2. Basis of the Policy

1.2.1. National Transport Policy

The National Transport Policy is prepared by FDRE Ministry of Transport. Logistics service is one of the main issues included in the Transport Policy. Beyond the provision of transport services, logistics service systems embraces warehousing, freight forwarding, dry port services, customs services, finance systems, trade systems, etc. The overall policy direction is strongly correlated with the National Transport Policy.

Therefore, the Logistics Policy has taken the Transport Policy as a basis for policy formulation.

1.2.2. National Economic Reform

The National Economic Reform considers transforming the country's economy within a short period of time. One of the basic issues of the economic reform is to open various economic sectors for competition and allow the involvement of the private sector and other economic operators. This will eventually generate benefits of technology, job opportunity, knowledge transfer, efficient services and supply and create a firm foundation for the economy.

Even though the national economic reform is designed for a short period of time, it clearly stipulates and directs ways to improve the economy. Thus, the logistics policy has taken the economic reform into consideration for policy formulation.

The logistics sector is the driving force for the economy and the government has an unquestionable role, stake and involvement. This being the case, this policy considers opening the sector to competition and encouraging the involvement of private investors while embracing modern ways of doing things and technology to facilitate logistics services. Therefore, the National Economic Reform is taken as basis for the formulation of the Logistics Policy.

1.2.3. Industrial Development Policy

Industrial Development Policy is the other document used as a basis for the formulation of the logistics policy. Developing reliable logistics systems is one of the issues indicated in the Industrial Development Policy.

Reliable logistics services include transport services, warehousing, dry port services, etc... The objective of logistics services is to deliver the required number of industrial inputs and products at the right time. The shipment and warehousing of inputs and products require proper and efficient handling.

Logistics services play a significant role to attain this objective set forth in the Industrial Development Policy. In addition to other relevant policies, the logistics policy should be aligned with the Industrial Development Policy to enable the sector to attain the goal it is entrusted with. Thus, the Industrial Development Policy is used as a basis in this policy preparation.

1.2.4. Agriculture and Rural Development Policy

The Agriculture and Rural Development Policy is designed taking into account the supply of agriculture inputs, warehousing, forwarding, port services and the agriculture to market and agriculture to industry linkage.

Attention is given to the fact that modernizing agriculture cannot be realized without having an efficient logistic system.

Logistic services play an indispensable role to modernize the agriculture sector by linking rural agriculture operators together, delivering important agricultural inputs like improved seed and fertilizers on time.

Similarly, it is only through an integrated, reliable and organized logistics service that agricultural products can be delivered to the market or industries that use agricultural products as input and harness the benefits from a thriving agriculture sector. In order to ensure this, the logistics sector needs clear policy directions and goals. Accordingly, the Logistics Policy has taken Agriculture and Rural Policy into consideration.

1.2.5. Pastoralist and Semi-Pastoralist Development Policy

Pastoralist and Semi-Pastoralist Policy is designed to develop pastoralist and semi-pastoralist areas and ensure that these areas equally benefit from the overall economic growth in our country.

One of the policy issues of the pastoralist and semi-pastoralist policy is to enable these areas benefit from the various animal resources the region is endowed with. To realize this, animal products, meeting the desired quality standard, need to reach local as well as foreign markets.

The logistics system plays a significant role to facilitate product supplies and foster economic gain. For this reason, Pastoralist and Semi-Pastoralist Policy is used as a basis for policy preparation.

1.2.6. National Information Technology Policy

The FDRE government has approved the Information and Communication Technology Policy and Strategy. One of the goals of this policy is to modernize the government's service infrastructure, support it with information technology and harness the economic benefit from the service sector.

For the logistics sector, which is one of the service sectors, information exchange is the bloodline. By its very nature, the logistics sector is based on information. Without modernizing and organizing the logistics sector with information technology, it will be challenging to deliver efficient services.

Therefore, it is imperative to build the logistics sector with strong organizational setup, human resource, information exchange and technology. Therefore, the formulation of the Logistics Policy has taken information and communication strategy into account.

1.2.7. Logistics Service Operators

A. Ethiopian Shipping and Logistics Service Enterprise /ESLSE/

ESLSE is a government development organization which is a merger of four organizations engaged in four different logistics services. These services are sea transport, dry port services, transit or freight forwarding and cargo transport services.

Though ESLSE merges these four logistics services and is a huge state-owned development organization, the enterprise is not performing as expected. The enterprise needs to go through structural change in terms of its set up and human resource capacity to be fit for international competition.

Numerous structural and implementation bottlenecks pose a challenge and limit the enterprise from becoming competitive. The fact that the enterprise has so far been the sole owner of the most important service sectors, there has been limited involvement of private investors, technological and knowledge transfer, and capital flow. Thus, the preparation of this policy has taken the overall status of this enterprise as a basis for policy formulation.

B. Private Investors

Making the logistics sector effective requires it to be competitive; it should also be equipped with competent work force to deliver technology supported modes of transports such as sea, air, port and postal services in an integrated manner. The logistics sector in our country has a long way to go in terms of involving private investors.

On the other hand, a number of private investors have showed interest to involve in the logistics service sector, however, it hasn't been possible to entertain their interest because of structural and legal framework limitations. The involvement of the private sector will make the logistics sector competitive, efficient, profitable and thus, contribute to the growth of other economic sectors. Thus, involving private sectors in the logistics sector is taken as a policy direction and considered as a basis for policy formulation.

PART TWO

VISION, OBJECTIVES, PRINCIPLES AND SIGNIFICANCE

2.1. Vision

Become a lead in the logistics service system in Africa and taking the geographic location into account make Ethiopian or Ethiopia's logistics service a destination for adjacent continents

2.2. Policy Objectives

The following are the main policy objectives:

- Transform the logistics sector in order to have efficient leadership, organizational set up and procedures.
- Open the logistics sector for competition and enhance the involvement of the private sector
- Integrate the logistics sector with other sectors and avail job creation opportunities

2.3. Principles

The logistics policy shall be governed by the following principles:

- Base the logistics sector on competitive grounds
- Ensure reliable and efficient logistics service system supported by Information technology

2.4. Significance

A policy decision is required to enable the logistics sector in our country play a role in enhancing our economy and respond to other important national matters, set goals and determine organizational and related issues.

A number of policy documents in the respective sector are designed and implemented to drive economic growth in our country. However, the design and implementation of these economic sectors need the logistics sector as an input. It will be challenging to attain national growth unless the logistics sector is guided and governed by a policy.

To realize this, the Logistics Strategy Document was approved in 2011 EC and implemented accordingly. It has become important to formulate a policy for the logistics sector to clearly stipulate policy

related issues in the strategy and clearly define the interest of the government. More specifically, the policy considers improving the logistics service by guaranteeing vessel ownership by Ethiopia, enhancing the involvement of private investors, improving FOB services and restructuring the organizational set up of ESLSE and the entire sector. Therefore, because of these reasons it has become important to design and implement this National Logistics Policy.

PART THREE

POLICY ISSUES

Logistics sector policies primarily focus on three issues. These are: reorganizations of the sector to enable competent delivery of services, enhance the involvement of private operators and base the logistics services on competitive grounds and modernize logistical procedures and attain efficiency. Accordingly, the issues of the Logistics Sector Policies are presented hereunder.

3.1. Organizing the Logistics Sector

From point of origin up to final destination of goods destination, the logistic service process encompasses planning, coordinating and integrating three important flows namely, flow of goods, finance and information. Moreover, logistics is a system that involves a number of stakeholders and institutions intuitions. In order to meet the intended purpose in logistic services, integrating and coordinating the relevant sectors has a paramount importance. Therefore, the presence of well-coordinated organization to oversee and fill the logistics service gap will have a great significance.

Therefore, a decision has been reached to establish a National Logistics Council chaired by the Ministry of Transport to lead the logistics sector in an integrated manner. Through the facilitation of the Ministry, the Logistics Transformation Office will be organized under the relevant institution tasked with logistics activities. The Urban Logistics Council and Regional Logistics Council will lead the logistics services in cities and regions respectively under the direction given by the National Logistics Council once it shall be in place. Moreover, The National Logistics Council shall provide the necessary support to attain an Ethiopian Logistics Community in which key sector actors such as importers, exporters, logistics service providers and regulatory institutions are represented.

3.2. Logistics Sector Service

3.2.1. In Sea Transport Sustain the National Carrier Service

In sea transport, maintaining the national interest of our country is the policy direction the government stipulates. In relation to sea transport, three main issues are covered in this policy document. These are:

- Should Ethiopia sustain ownership of vessel /national carrier or not?
- What is the benefit of implementing Multi-Modal Transport System, its relationship with the sole operator (MTO), should it continue or not?
- Under the Free on Board shipment arrangement, should sea transport be handled by Ethiopia or handed over to suppliers? Should the benefits of being a national carrier, implementation of the multi-modal system and the benefits it availed to the operators continue or not? These are the issues to be considered under this policy.

ESLSE and foreign companies deliver sea transport services to Ethiopia. ESLSE handles 25% of the country's external trade. Shipment is made via:

1. **National Carrier/Own Vessel:-** Currently Ethiopia owns 11 ships. Out of the total shipment made by ESLSE, 20% is handled by national carriers.
2. **Foreign Shipping Companies:-** Out of the total shipment, 80% is handled by chartered ships, SCA (Slot Charter Agreement) and with foreign shipping companies applying similar arrangements.

The data indicates that to make the sea transport service sector profitable it is necessary to clearly stipulate policy interest of the government and support the ESLSE to restructure its organizational set up and service delivery by designing different approaches and strategies.

Therefore, the interest of the government is to have its own vessel or a National Carrier and become a service provider under the NVOCC (Non Vessel Owner Common Carrier) arrangement.

3.2.2. Dry Port Development and Services

3.2.2.1. Opening Dry Port Development and Services to Private Investors

All dry ports in Ethiopia are constructed by the ESLSE government institution is ESLSE. On these ports, all services are exclusively rendered by ESLSE. Private companies have no involvement in dry port development and service provision. This constrains the creation of a competitive environment, hampers the introduction of efficient procedure and thus, the sector isn't as profitable.

It is the interest of the government to allow private investors to improve existing and develop new dry ports and services. In addition to enhancing the involvement of the private sector, the government envisions for importers and exporters to recruit operators on a competitive basis. Therefore, opening dry port development and services is in the interest of the government hence, the necessary legal frameworks and procedures shall be put in place.

3.2.2.2. Developing Common Use Facility Arrangement in Dry Ports

So far private investors were not involved in the provision of services at dry ports constructed by government. The dry ports were exclusively handled by one operator. Such an arrangement deprived a competitive atmosphere and the government is now in a position to transform the dry ports to value-adding and multi-user logistics hub in which a number of operators are involved. Under the ownership of ESLSE, common use facility will be applied in dry ports.

3.2.2.3. Joint Investment of Dry Ports

Modernizing local dry ports and terminals to provide efficient services and enable them to contribute to the development of the logistics service requires an investment and knowledge of the sector. Therefore, ESLSE will work with private investors with either joint investment arrangement or partnership arrangement.

3.2.3. Multi-Modal Transport Service

3.2.3.1. Opening Multi-Modal Transport Operator Service to Private Investors

One of the main benefits of a multi-modal transport system is its great significance in saving foreign currency. It has managed to save USD 20 million per year. Therefore, it is important to enhance the multi-modal transport system. So far, the multi-modal system is handled by a sole operator- that is ESLSE. Multi-modal transport systems are mainly operated using sea shipping thus integrating other modes of transport such as sea transport, seaport and air transport is important. Making these modes of transport become multi-modal transport operators increases service coverage and eventually benefits our country. Thus, the government has a belief to create additional multi-modal operators.

As indicated above, in addition to ESLSE, granting Multi-Modal Operation permit to local investors in the short-run and then to foreign investors in the long run is believed to be a better alternative and policy direction that will bring significant benefits.

3.3. Logistics Sector Procedure

3.3.1. Improving the existing FOB Procedures and Assignment of Operators

The existing FOB regulation recognizes ESLSE as the sole executive body. Since the regulation is not open to include special conditions, there has been various limitations in implementation. In order to encourage industrial good manufactures and exporters and to some extent give them a chance to use the service of other shipping companies, the government aims to revise the existing procedure thereby preventing importers who knowingly or unknowingly import by foreign ships without getting permission from ESLSE.

Freight volume of our importers is still very low and at the national level we still have not established a Shippers Council which makes our bargaining power very low. In this context, lifting the FOB procedure will have overarching disadvantages.

The FOB regulation should be revised by taking the following conditions and points into consideration. These are:

- Foreign investors should not be obliged to only use ESLSE
- Improve waiver requirements and make it more flexible
- Lay down procedures to control price and services provided by the FOB operator and satisfy customer needs
- The FOB procedure shall be designed in a way to increase or decrease the number of operators as required.

3.3.2. Transform Organizational Structure and Procedures of Ethiopian Shipping and Logistics Service Enterprise (ESLSE)

ESLSE is the sole government operator handling multi-modal, dry port services and FOB purchasing modality in the country. The enterprise should create capacity to become fit in the competitive ground when the sector is opened for private investors.

Currently, ESLSE is primarily led and its procedures determined by the government. The enterprise lags behind in terms of making speedy decision, implementing easy purchasing procedures and alternative businesses so it competes with peer enterprises internationally. This limits the modernization of the logistics sector and hardly satisfies customers' need.

To enable efficient and effective delivery of services, ESLSE needs reform in assigning board members, procurement system and recruitment procedures. It is in the interest of the government to effect change in this regard. Accordingly

1. To enhance its national relevance by allow the enterprise to sell some of its share to cargo owners and to private logistic service providers
2. To garner modern and global procedures, allow work with internationally renowned logistic companies in Joint Venture/ JV/ with specific logistics activities or similar approaches.
3. Apply organizational restructuring to enable the enterprise to have a competent stature to stand in the forefront in Africa by organizing it as a Holding Company.

PART FOUR

POLICY IMPLEMENTATION MODALITIES

The National Logistics Council shall give direction, as appropriate, to implement the main policy issues and goals indicated in the policy document. The following are policy implementation modalities.

4.1 Set up a Structure to Lead the Logistics Sector in an Integrated Manner

Establish National Logistics Council chaired by the Ministry of Transport to make decisions and lead the logistics service in a coordinated manner. The Logistics Transformation Office, which will serve as the secretariat for the Council, shall be established by the Ministry of Transport.

4.2 Transform Organizational Structure of ESLSE

To enhance its national relevance by allowing the enterprise to sell some of its share to cargo owners and to private logistic service providers; garnering modern and global procedures; working with internationally renowned logistic companies in Joint Venture/JV/ with specific logistics activities or similar approaches; applying organizational restructuring to enable the enterprise to have a competent stature to stand in the forefront in Africa by organizing it as a Holding Company.

4.3 Revise Logistics Sector Regulations

4.3.1. Open Dry Port Development and Services to Private Investors

Establish legal frameworks and procedures to facilitate the opening of dry port services solely owned by Ethiopian Shipping and Logistics Service Enterprise to private investors.

4.3.2. Opening up Multi-Modal Transport Operator Services to Private Investors

Establish legal frameworks, procedures and bilateral agreements to open up multi-modal operator services, solely run by the Ethiopian Shipping and Logistics Service Enterprise, to local operators.

4.4 Revising Logistics Sector Procedures

The FOB policy, issued by the Office of the Prime Minister Economic Sector Affairs in the year 1990 EC and 1992 EC under number ጠ80- አጠ74/01/03 and መጽ1-811/4 respectively, shall be revised in alignment with the current economic situation of our country.

PART FIVE MISCELLANEOUS

5.1. Policy Monitoring and Evaluation

The Logistics Policy shall be implemented by FDRE Ministry of Transport and the relevant institutions in the hierarchy stipulated and shall have the responsibility to monitor implementation of the Policy.

There will be periodic monitoring and evaluation of the policy. In the process, if there are proclamations, rules and regulations that contradict with this policy, they will be revised to comply accordingly. Moreover, if the organizational structure of relevant institutions hampers the implementation of this policy, their structure shall be arranged in compliance with the goals and direction stipulated in this policy document.

5.2. The Role and Involvement of Stakeholders

A number of stakeholders play a vital role to implement the Logistics Policy. Accordingly, the concerned stakeholders shall be assigned roles to support the strategic implementation of this policy.

5.3. The Way Forward

This Policy shall come into effect as of its date of approval in the FDRE Council of Ministers. The policy is formulated in compliance with the Logistics Strategic Document, which is approved in 2011 EC until 2021 EC, for a period of 10 years. This policy shall be effective from the date of approval until 2021 EC.