



## **PROMOTING ETHIOPIA AS A SOURCING DESTINATION**

BUYERS' BREAKFAST | SUMMARY OF ITS #3 EDITION | BOLE LEMI INDUSTRIAL PARK | 09.NOV.2024

# TOPIC FOCUS ON LOGISTICS

This year's Buyers' Breakfast facilitated a frank dialogue on the topic of **logistics**: its challenges, its opportunities with at least 50 participants:



## Private sector participants:

- 24 international buyers and brokers sourcing mainly for the UK and the European market (including Germany | Italy | the Netherlands)
- Representatives from Ethiopian logistics sector.
- Industry brokers
- Sector specific association representatives

## The Ethiopian government officials:

For example:

- Directors and advisors from the Ministry of Industry (MoI)
- High-level government official from the Ethiopian Investment Commission (EIC)
- High-level government official from Industrial Parks Development Cooperation (IPDC)



## International government officials:

- High-ranked embassy representative from the United Kingdom (UK)
- High-ranked embassy representative from Germany



## Implementing development partner:

- The PPD dialogue was implemented by GIZ Sustainable Industrial Clusters (S.I.C. II) project, funded by the UK and German government in cooperation with the Ethiopian government.



# KEY TAKEAWAYS SUMMARIZED

In summary, the main take aways of the Buyers' Breakfast private-public-dialogue (PPD) were:

- Ethiopia maintains its potential to be an alternative sourcing destination for the textile and the garment sector, and the buyers looking to source away from Asian countries (e.g. Bangladesh). Its potentials include:
  - Ethiopia offers a young labour force and geographical proximity to the EU, with a potential lead time of 30 days from factory to EU (Asia is currently at 50-56 days).
  - Ethiopia ranks lowest in CO2 emissions among a key buyer who is sourcing from at least 28 countries, utilizing over 95% green energy in line with the buyer's renewable energy targets.
  - Ethiopia has shown significant workforce productivity and promising growth in its first decade of industrialization, akin to early trajectories of Bangladesh and China.
  - Efforts are underway to improve the investment climate and attract more foreign direct investment (FDI) – e.g. the introduction of the Special Economic Zones (SEZ) | Liberalization of the logistics sector | The adaptation of the Electronic Single Window (ESW) system for customs etc
- However, despite its attractiveness, the challenges continue to outweigh its potential to become the next hub. To achieve its potential, the PPD concluded with clear call for action to:
  - **Reduce the lead-time:** Its current lead time averages 71 days (16 days factory-to-port, 55 days port-to-destination). Prior to the Red Sea crisis, lead-time was approximately 40 days.
  - **Reduce the cost of logistics:** Currently high logistics import/export costs (20% of total product cost).

# KEY TAKEAWAYS



## Lead time is too long:

- Asia outcompetes Ethiopia with faster lead times (50-56 days) despite Ethiopia's closer proximity to Europe. Insufficient export volumes force carriers to make stops, inflating costs and delays.

## Required action:

- Increase export volumes to reduce carrier stopping points and enable direct shipping routes from Ethiopia to Europe.
- Raise stakeholder awareness about the critical time-sensitivity of the sector across the logistics value chain, especially customs and rail operators and ultimate financial impacts of delays, emphasizing the need for coordinated and efficient operations through the supply chain.



## High-logistics costs:

- High logistics import/export costs (20% of total product costs), driven by import dependency, Djibouti port charges, costs of delays at customs, clearance, unrealisable train schedules, etc.

## Required action to address logistic challenge:

- Advocate for a unified operational desk to address logistics issues efficiently.

## Required action to reduce lead-time for import :

- Build a local value chain to reduce import dependency.
- Establish a bonded warehouse in the industrial parks for streamlined logistics allowing contains to come directly to the IPs.
- Strengthen the cotton and leather value chains to minimize dependency (potentially through collaboration with JICA).

## Required action to reduce lead-time for export :

- Improve collaboration among the stakeholders in the sector.
- Ensure road safety to make it possible for drivers to depart at night.
- Bring more investments into trucks through incentive packages to increase availability.
- Improve efficiency in the rail operations (what could take 2-3 days by truck could be delivered by rail in a day).
- Negotiate with Djibouti and carriers to lower port costs and reduce delays. The
- Increase export volumes to secure direct shipping routes to Europe and reduce stops.
- Advocate for the sector to compete in priority with other commodities.

# KEY TAKEAWAYS



## Geo-political:

- Dependency on duty-free input imports poses long-term business risks.
- Red Sea conflict are beyond Ethiopia's unilateral control but ultimately hampers the competitiveness of the sector – especially for a land-locked country.
- There is a need for coordination between Djibouti and Ethiopia

## Required Action:

- Government negotiation with Djibouti port and service providers, Ethiopia and Djibouti's interdependency (with 90% of port volumes in Djibouti being from Ethiopia) provides leverage for negotiations with Djibouti and logistics providers like ESLESE, CMA and Maersk.
- Explore the option to create an operation desk which should address the queries.
- Temporarily explore air freight option and negotiate companies interests with Ethiopian Airlines.
- Explore other viable alternatives such as Mombasa corridor and improved boarder clearance at Moyale are viable alternatives.



## Mode of transportation and infrastructure:

- Poor road conditions to Djibouti and old truck fleets
- Red Sea conflict
- Temporarily explore air freight option and negotiate companies interests with the Ethiopian Airlines (EA). EA operates over 20 destinations in Europe, with two daily cargo flights to Belgium, each with a 100-ton capacity, currently used for perishable goods.
- Air freight must be a short-term solution given the buyer concerns of CO2 emissions.
- A direct railway extension for Dire Dawa Free Trade Zone needs to become operational.

## Required Action:

- Upgrade roads from the Ethiopian boarder to Djibouti, which ultimately can reduce logistics costs and improve lead time.
- Negotiate rates with Ethiopian Airlines based on aggregated volumes and destinations. EA can support apparel companies in accessing European markets with competitive air cargo freight rates.
- Identified key stakeholders will collect and consolidate data on volumes, destinations and company interests across the apparel sector.
- Coordinate with Ministry of Transport on dry port construction in Hawassa to leverage new infrastructure for service improvements in logistics.
- Expediate railway line extension for direct port connectivity with Dire Dawa Free Trade Zone

# KEY TAKEAWAYS



## Policy-related:

- Fragmented logistics sector requiring interaction with multiple institutions, leading to inefficiency and lack of coordination.
- Need for more active engagement of key sectorial government officials (e.g. Ministry of Transport and Logistics (MoTL), Ethiopian Maritime Authority (EMA))
- Positive macroeconomic reforms have enhanced access to foreign currency and forex retention policies.
- Introduction of the Special Economic Zones (SEZ):
  - Expanded incentives for investors, including 100% forex retention for local manufacturers operating in the SEZs.
  - New rights for enterprises to participate as sub-developers.
  - Broadened trade activities allowing foreign investors to import, export, logistics and engage in trading.
  - Over 100 large companies have submitted trade sector proposals of which 20 have been approved.

Recent government restrictions of Franco Valuta imports do not apply to SEZ companies unless they sell inputs locally.

## Required Action:

- Advocate for establishment of a single operational desk to streamline and coordinate logistics-related issues.
- Provide training and resources to enhance the capacity of domestic logistics service providers
- Communicate and promote the outcomes of policy advocacy in forex retention, simplified customs procedures, etc. to stakeholders, highlighting their positive impact on the sector and encouraging further collaboration.
- Support the SEZ full implementation, and promote the incentives offered by SEZs to attract investment.
- Follow up on the macroeconomic committee's endorsement of logistics bottleneck solutions and collaborate with stakeholders to implement the identifies improvements.
- Discuss with the Ministry of Transport to address critical infrastructure and security issues affecting SEZs and IPs.
- Finalize preparations for the designations of all IPs into SEZs.
- Coordinate with National Bank of Ethiopia to implement 100% retention of forex earnings for companies in the IPs.
- Address Franco Valuta-related concerns to ensure clarity for SEZ companies



## Customs:

- Customs clearance remains a challenge but shows strong promise for improvement following debates and discussion. The need to reduce bureaucracy, red tape but optimistic since there is a change in attitude including better understanding and solving approach. Simplification of customs procedures can result in savings of 2-3 days of demurrage costs.

## Required Action:

- Provide training and resources to enhance capacity of domestic logistics service providers on:
  - The recently adopted Electronic Single Window (ESW) system for customs.
  - To process electronic bills of loading, enhancing customs processes.
- Advocate for the continued simplification of customs processes to minimize clearance delays and reduce associated demurrage costs.
- Collaborate with the Ethiopian Customs Commission to monitor and improve customs processes for IPs.

# KEY NEXT STEPS

- The Buyers' Club, chaired Otto-Group, was launched on 10th of November 2024. The Club aims to ensure continuous engagement with the UK and European buyers. The secretariat (GIZ) of the Club will organize:
  - Ad hoc online meetings to inform those interested in sourcing from Ethiopia as and when significant steps have been taken to improve the existing bottlenecks, such as logistics (costs) and lead time.
  - Publish quarterly newsletters to keep the members informed of the sectoral changes. The first edition will be issued by the end of January 2025.
  - Organizing tailor-made roundtable discussions connecting the local manufacturers with potential buyers (i.e. in TexWorld in Paris in February 2025).
- Tracking of progress with political partners facilitated by GIZ and reported to buyers.
- Negotiation with Ethiopian Airlines as the temporary solution to reduce the lead-time while the Res Sea



Buyers' Club Launch Addis Ababa 2024



By Lomi



By DolMel



By Dann

# WATCH THIS SPACE

Email: [sic@giz.de](mailto:sic@giz.de) if you wish to stay informed.

# THANK YOU TO KEY CONTRIBUTORS TO THE BUYERS' PPD



24 international buyers and brokers

