



Developments in the Transport Sector of Ethiopia

Introduction

This is a brief report of the key findings of a study on “Developments in the Transport Sector of Ethiopia”. The full report can be obtained from the Ethiopian Economics Association, Report on the Ethiopian Economy 2012.

Summary of key Findings

Development in Transport Infrastructure

Ethiopia has been expanding its transport infrastructure network by implementing a series of Development Programs in the last decade and a half.

According to ERA¹, during the period 1997-2011, about 2380kms of rehabilitation, 5931kms of upgrading, 3662kms of new construction and 8694kms of heavy maintenance of federal roads were made. In the regions, about 18,273kms of roads were built and 18,155kms were rehabilitated. Gravel and rural roads expanded, on average, by 1.4 percent and 6.5 percent per annum, respectively, during the same period.

As a result, the road density per 1000 square kms has increased from 24kms in 1997 to 49.1 kms in 2011. The density per 1000 people has also increased from 0.49 km in 1997 to 0.66km. The amount of land located at a distance greater than 5kms from all-weather roads was reduced from 79 percent in 1997 to 61.2 percent in 2011. Average distance to all-weather roads also improved from 21kms in 1997 to 10.2kms in 2011.

Despite the relative importance of railway in reducing the cost of transportation and hence improvement in the competitiveness of the economy, the sub-sector was neglected for a long time. During the Growth and Transformation Plan (GTP) period, however, it has drawn significant government attention. The construction of several railway lines is underway including the light train project in Addis Ababa.

Following the independence of Eritrea in 1991, Ethiopia became landlocked. As a result, the country has been compelled to use transit countries for its imports and exports. In order to ease some of the problems in the transit countries, Ethiopia has started constructing Dry Ports/Terminals in its hinterland along the transit corridors. Among the planned dry ports, Modjo and Samara dry ports have become operational.

Another area of focus has been airport infrastructure. Due to increasing tourist flows and rise in the export of high value commodities such as cut flower and meat, expanding the capacity and upgrading the standards of airports have become critical. As a result the facilities at Bole International Airport have been upgraded significantly and some of the domestic airports were up graded to international levels.

¹ ERA. 2011. 14 Years Performance of RSDP, November 2011



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Performance of Transport Services

Transport has both direct and indirect contributions to the growth and development of an economy. The share of transport the sub-sector in the total GDP of the country has remained more or less at about 4.2 percent over the last decade and a half. The share of transport in the total service sector has, however, slightly declined from 10.8 percent in 1996/97 to about 9.5 percent in 2010/11.

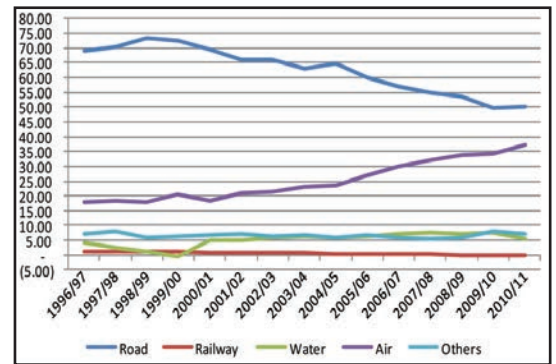
In the period (1996/97-2010/11)², real GDP, the service sector and transport services have been growing, on average, by 7.5 percent, 9.4 percent and 8.5 percent per annum, respectively. This shows that the growth rate of the transport sector has been less than the service sector but more than that of real GDP.

Performance by Modes of Transport

Different modes of transport have different levels of contributions owing to their coverage. The percentage shares of road, rail, water, air and others sub-sectors in the total transport sector GDP were 50.1, 0, 5.5, 37.4 and 7, respectively, in 2010/11. Over the period 1996/97-2010/11, the share of road transport in the overall transport sector GDP declined while that of air increased. The share of water transport increased slightly over the period while that of railway transport declined and came to a halt by the end of the review period. Although EAL provides domestic air transport services, the increased share of air transport emanates from the expanding international service activities. Since inland water transport service is very limited, the contribution of water transport is due to the role of the Ethiopian Shipping and Logistics

Service Enterprise (ESLSE) which has been handling the growing Ethiopian exports and imports from and to the country (Figure 1).

Figure 1: Transport Services by Modes



Source: MOFED

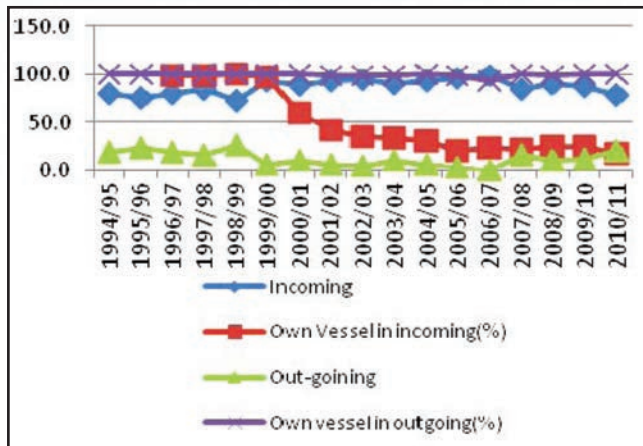
Of the total cargo handled by ESLSE between 1994/95 and 2010/11, on average, about 87.4 percent was incoming while the balance was out-going indicating that incoming cargo was 6 times higher than outgoing cargo. Almost 100 percent of the outgoing cargo was handled by ESLSE's own vessels implying the sufficiency of the number and capacity of own vessel to handle outgoing cargo. The share of own vessel in the incoming cargo has continued to decline. For instance, the share of own vessel declined from about 100 percent in 1998/99 to about 18.4 percent in 2010/11, partly due to the increasing volume of imports into the country (figure 2).

The low export/ import cargo ratio indicates that Ethiopian vessels often sail empty to collect imports from different parts of the globe. This in turn has an impact on the freight tariff imposed on incoming cargoes since the ESLSE incurs loss on the outgoing ones.

²MOFED, National Accounts Department, various reports

Economic Knowledge for Optimal Decision

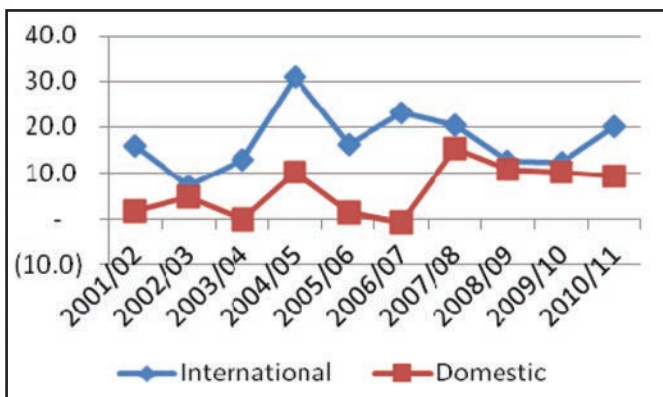
Figure 2: Share of Incoming and Out- going cargoes by ESLSE



Source: ESLSE

The number of international passengers carried by EAL increased from 798.7 thousand in 2001/02 to 3262.8 thousand in 2010/11 increasing, on average, by 17.1 percent over the period. The number of domestic passengers increased from 263.8 thousand in 2001/02 to 468.5 thousand in 2010/11, indicating an average annual growth of 6.2 percent in the same period. The achievement was remarkable in the face of declining performances of international carriers across the globe (figure 3).

Figure 3: Growth in International and Domestic Passengers, in %

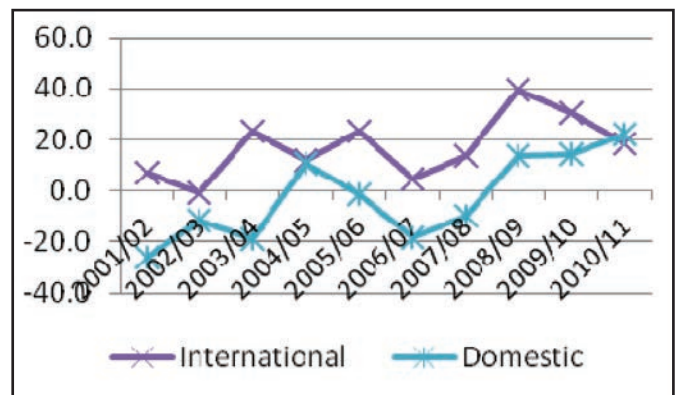


Source: EAL

The volume of cargo carried by international flights increased from 3.2 million kgs in 2001/02 to 168.2 million kgs in 2010/11 depicting an average annual growth of 17.2 percent over the period.

The volume of cargo carried by domestic flight, however, declined from 753.7 thousand kgs in 2001/02 to 695.9 thousand kgs in 2010/11 indicating an average annual decline of 2.4 percent in the same period. The increase in cargo transport in international flights is due to increased cut flower and meat and meat products export while the decrease in the domestic cargo could be due to increased role of private aircrafts and improved efficiency of road transport (figure 4).

Figure 4: International and Domestic Cargo, growth in %



Source: EAL

Supply of Transport Equipment

Ethiopia imports transport equipment for all the modes of transport. However, due to the establishment of car assembly factories in the country, it has started assembling different types of vehicles. This has tended to reduce the rate of importing used vehicles and hence transport spare parts.

Statistics show that the share of transport in the total import bill of the country has declined over the review period. Transport equipment, according to the System of National Accounts (SNA), is considered as capital goods when it serves business and investment activities otherwise it is considered as consumer goods, like private service. The share of private automobiles has been trending upwards in the period 1991/92-2010/11 indicating the reduction of transport vehicles for businesses³.

³National Bank of Ethiopia, various issues

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Vision:

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Mission:

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Physical Address:

Ethiopian Economics Association

Yeka Sub - City, Kebele 19

On the Road from Megegnagna to CMC

CMC Area, ALTAD, Adjacent to St.

Michael Church

Addis Ababa, Ethiopia

Tel: 251-(0)11-6453200

Fax:251-(0)11-6453020

Ethiopian Economics Association

P.O.Box 34282

Addis Ababa

Ethiopia

Email: eea@ethionet.et

Website: www.eeaecon.org

High fluctuations have been observed in the growth of imports of both capital and consumer transport goods. Despite the observed fluctuations, transport-capital goods increased, on average, by 29.2 percent and transport-consumption goods by 25.2, percent, per annum, over the period 1991/92-2010/114.

Private Sector Participation

Following the introduction of free market economic management system and the issuing of investment legislation in 1992, the transport service sector has been opened to private sector operators.

In the road and air transport sub-sectors, both private and public service providers operate, though to a varying degree, while the sea and rail transport sub-sectors are restricted to the public sector.

According to the 2002 investment code of the country, Ethiopian nationals are allowed to involve in the provision of air transport services using aircraft with a seating capacity of up to 20 passengers and any cargo size. Before the amendment in 2002, cargo size was limited to a maximum of 3,200kgs. Currently, about 24 private air transport service providers have been licensed, registering a capital of over Birr 1 billion to provide passenger, cargo and flight facilitation services out of which, 17 are for passenger and cargo, 1 only for passenger, 5 only for cargo and 1 for flight facilitation. Of these, 9 for both passenger and cargo, and 1 for flight services have become operational while others are in the process to begin work.

Policy Recommendations

Despite the importance of the transport sector, little research has been conducted on the sector in the country. Therefore, it would be imperative for the academia, students and researchers to take up transport and related issues as their research agenda.

Information on the sector is scanty, and scattered in different regulatory organizations. Hence, the responsible public bodies at both federal and regional levels should establish a data clearing center on the sector and regularly update it.

The transport sector has been inefficient. For example, export commodity transporting trucks return empty from Djibouti and import goods transporting trucks go empty to Djibouti. This happens mainly due to lack of information. Hence, it is important to establish a freight transport information exchange center which provides freight (dry cargo) information to transporters, importers and exporters to and from the ports. If this problem is addressed, the whole cargo could well be handled by half of the exiting stock of functional trucks. This, in turn, improves efficiency by reducing the total fuel consumption, spare parts, time and labor, depreciation, and other costs.

By and large, the supply of transport service falls short of the demand. This is partly due to the fact that the transport sector is unattractive to private investors compared to other sectors. Hence, the government has to provide adequate incentives to attract the private sector to engage in transport services.

⁴ National Bank of Ethiopia, various issues