



WFP ETHIOPIA SPECIAL OPERATION SO 200358

Country:	Ethiopia
Type of project:	Special Operation
Title:	Construction and Management of the WFP Humanitarian Logistics Base at Djibouti Port
Total cost (US\$):	USD 19,404,251
Duration:	20 months (01 January 2012 – 31 August 2013)

Executive Summary

Djibouti Port is the principal transit point¹ for cargo in and out of Ethiopia and a key link in commercial transport routes to and from the greater Horn of Africa. The port is likewise critical for the efficient flow of humanitarian goods. Nearly four million metric tonnes of relief cargo have passed through Djibouti in just the past three years.

Commercial throughput for the rapidly expanding Ethiopian market, combined with continued high volumes of food assistance, have generated significant strain on the Djibouti port and transport sectors, resulting in escalating logistics costs and increasing congestion and bottlenecks.

To enhance efficiencies in both humanitarian and commercial logistics within a broader sector plan, the Government of Djibouti (GoD) and WFP are developing a humanitarian logistics base (HLB) in the port. The GoD has granted WFP free concession to 40,000 square meters of land to construct a facility offering containerized, bulk, break bulk and non-food items (NFI) storage services to WFP operations and to the wider humanitarian community.

The HLB will achieve four strategic objectives:

- i) enhanced efficiencies of supply chains in the Horn of Africa;
- ii) augmented regional humanitarian response capabilities;
- iii) alignment of port operations with Ethiopia's expanding strategic reserves; and,
- iv) strengthened logistics systems and capacities in Djibouti Port.

WFP Ethiopia will seek to cover some costs for initial facility construction, noting significant benefits of the Special Operation (SO) for the supply chain in Ethiopia. The remaining required resources will be sought from the international donor community through this SO. After construction is complete, ongoing HLB management will be sustained by cost recovery from operations without expectation of additional donor contributions.

The SO is scheduled for 20 months at an estimated total operational cost of USD 19.4 millions

¹95% of Ethiopia's import/export are routed through the Djibouti Port, "Ethiopian Maritime Affairs Authority"

Project Background

1. The Djibouti Port has long been under considerable pressure to handle high import requirements of Ethiopia. Rapid economic growth in Ethiopia, an import economy, has increased demands on Djibouti Port. The IMF reports an average annual economic growth rate over 10% in the past seven years with growth expected also for future years². Ethio-Djiboutian logistics resources are expected to be consequently further strained. Moreover, the Government of Ethiopia (GoE) presently plans to expand its Emergency Food Security Reserve from 400,000 metric tons to 3 million metric tons, in part with increased stocks of bulk commodities.
2. Additional to commercial and Government cargo, Djibouti Port is a critical transit point for food assistance and other humanitarian cargo. In the last 3 years, WFP alone has moved an average of half a million MT of food aid per year to Ethiopia with peaks in 2008 and 2009 of 1 million MT.
3. Similarly, the wider humanitarian community operating in Ethiopia relies on the Djibouti Port for their imports. In the period from 2006 and 2010 the humanitarian community has imported into Ethiopia an average of 300,000 MT of humanitarian aid cargo.
4. In 2009, facing significant cost increases and port/transport congestion of humanitarian cargo, WFP Ethiopia opened corridors through Port Sudan (Sudan) and Berbera (Somaliland) to offset the logistics burden on Djibouti³. Handling 15% of WFP total requirements, these two corridors eased operational pressures in Djibouti but cost nearly four and two times as much as Djibouti operation costs respectively⁴. This experience reinforced the critical importance of Djibouti for a cost efficient Ethiopia supply chain.
5. The steadily increasing throughput of humanitarian and commercial cargo through Djibouti has stretched the coping capacity of the port and the corridor⁵. Warehousing capacity is limited. Trucking capacity ex Djibouti is likewise under strain, especially due to large transport requirements for cement, fertilizer, and other commercial cargo. Silo facilities are inadequate. One company, Société Djiboutienne du Terminal Vraquier (SDTV), holds a monopoly on stevedore services. WFP, the humanitarian community, and the GoD are under pressure to develop alternative solutions to the compounding logistical bottlenecks.
6. WFP and the GoD therefore agreed in 2010 to establish a logistics base in Djibouti to enhance the supply chain with increased cost and systems efficiencies. In September 2010 the GoD granted WFP concession to 40,000 square meters of land near the existing port facilities for the purpose of establishing a Humanitarian Logistics Base.

² World Economic Outlook (WEO), September 2011, <http://www.imf.org/external/pubs/ft/weo/2011/02/>

³ In 2009 Ethiopia CO diverted to Port Sudan and Berbera 80,000 MT and 145,000 MT respectively to avoid congestion at Djibouti Port.

⁴ Port Sudan / Nazareth - \$180/MT, Berbera / Nazareth \$ 81/MT. Djibouti / Nazareth \$ 47/MT

⁵ Please also see attached “Ethiopia Freight and Transport Study”

Project Objective(s)

7. Special Operation 200358 has four primary objectives. First, the HLB will enhance efficiencies and management of humanitarian supply chains of WFP and the humanitarian community throughout the region.
8. Second, the HLB will augment emergency response capabilities in the Horn of Africa with expanded prepositioning capacity for humanitarian cargo, both of food and non-food items. The strategic location of Djibouti makes it possible for cargo to reach Ethiopia, Somalia, North and South Sudan, and Kenya by road and Yemen by sea, all within eight to ten days. The HLB is thus ideally situated for humanitarian prepositioning efforts for the Horn.
9. Third, the HLB will help WFP and the humanitarian community to better align humanitarian operations with the Government of Ethiopia (GoE) Emergency Food Security Reserve Administration (EFSRA) plans to expand strategic grain reserves with bulk transport and storage. By adapting the humanitarian supply chain from the current bagged storage/transport modality to a system including silos for bulk handling⁶, the HLB will preserve and strengthen options for working synergies between WFP operations and the GoE infrastructure.⁷
10. Fourth, WFP will partner in overall GoD transport sector strengthening, engaging in systems and skill transfer and general capability enhancing efforts for the logistics sector in Djibouti.

Project Description

11. The HLB will consist of 40,000 metric tons of bulk food storage capacity and 12,000 metric tons of break bulk food storage capacity as well as 2,500 square meters non-food item storage equipped with an efficient racking system. The HLB will offer warehousing, loading, and all related infrastructure and services necessary for a multipurpose storage and handling facility. The HLB will include container yard terminal capabilities. Office, communications, and meeting facilities will also be on offer. Concurrently, WFP and the GoD will work closely on capacity development and skills transfer for the Djiboutian logistics sector.

Project Justification

12. The HLB will generate multiple benefits for the humanitarian partners, donors, and Governments of Ethiopia and Djibouti including cost savings, increased storage and prepositioning capacity, enhanced logistics corridor options, and capacity building and systems development.
13. **Cost savings**⁸. In 2009 and 2010 WFP Ethiopia accumulated demurrage, shunting and storage/detention charges over USD 2 million. Such charges stem from

⁶ The efficiencies in both transport and storage of a bulk supply chain can be found in the attached document “Nazareth Grain Facility”

⁷ WFP is the primary interlocutor to the GoE for the technical advice needed to undertake this shift. Discussions have started in regards to a bulk storage facility of 300,000 metric tons to be established in Nazareth. The HLB in Djibouti will be closely linked with this facility given the strong relationship between the Programme and EFSRA. WFP regularly borrows grain from EFSRA and repays it in due time.

⁸ For assumptions on projected cost savings please refer to Annex B

underperforming vessel off-take. During peak periods, trucks are prioritized to Government fertilizer and cement imports rather than to relief cargo. Trucking bottlenecks exacerbate inadequacies of storage capacity, generating demurrage.

14. Slow off-take capacity is also linked to a gate pass system which delays truck turnaround time. Trucks currently gather in “the Ethiopian Parking place” approximately 12 Km from the port. Current procedures there lead to delays of 3-4 days before a given truck is issued a gate pass to the port.
15. Port storage capacity is also most limited and expensive during peak periods right when truck capacity is least capable of relieving congestion in port. Humanitarian agencies thus face steep storage costs for food and non-food items. Similarly, additional storage costs are incurred while waiting for customs clearance.
16. The HLB will generate cost savings with direct solutions to these logistical bottlenecks (see also Annex A and B):
 - ✓ trucks will await loading directly at the HLB rather than in the Ethiopian Parking place, enabling faster off-take and corresponding savings on external transport rates⁹;
 - ✓ bulk storage will reduce stevedoring costs;
 - ✓ in high volume periods, grain can be shunted from the port to HLB silos, thus avoiding vessel demurrage and higher cost commercial warehousing;
 - ✓ the non-food item warehouse and a container yard will enable savings on storage/detention charges currently incurred at the Djibouti container terminal; and,
 - ✓ the HLB bonded warehouse will enable humanitarian goods in transit or in pre-position to avoid time and expense lost to customs clearing and re-export of cargo.
17. **Increased storage and prepositioning capacity.** The HLB will offer the humanitarian community greater flexibility in regional pipeline management and the opportunity to pre-position relief cargo. Because of its strategic location, the HLB will be able to perform both inland and sea shipments. To offset congestion at Mombasa, WFP Somalia regularly uses Djibouti as a transit hub for food aid destined to Somaliland and Puntland through chartered vessels to Berbera. This practice, limited by Djibouti storage capacity, will increase once the silo and bonded storage options of the HLB are in place.
18. The HLB will serve as a WFP Forward Purchasing Facility (FPF) hub, enabling WFP corporately to purchase and store food when prices are competitive for subsequent release when needed to WFP programmes in Somalia, South Sudan, Ethiopia and Yemen.
19. **Additional logistics corridor options.** The Southern Sudan provinces of Upper Nile and Jonglei can be accessed from Ethiopia directly from Djibouti through the Gambella corridor. While the Port Sudan route is more economical, the corridor undoubtedly provides a viable, concrete alternative to accessing these areas.¹⁰

⁹ The discharge/bagging rate is expected to increase from approximately 5000 to 10,000 tons per day when discharge operations change to bulk directly on bulk trucks, thus decreasing by 60% the time needed to discharge a vessel of 40,000 MT.

¹⁰ The corridor would also provide a viable alternative to aid destined to South Sudan considering that the North Sudan/South Sudan border may be closed at times.

20. **Capacity building and systems development.** WFP and GoD are full partners in all aspects of the HLB. In addition to committing land, the GoD will assist with external fundraising for successful project implementation. GoD has asked WFP to undertake skills transfer activities to strengthen local port/trucking systems and capabilities. The GoD is also engaging WFP for counsel on options to further develop Djibouti into a more competitive commercial logistics hub for the region, noting Dubai as one potential model from which to draw lessons.¹¹

Project Implementation

21. The Head of Logistics for WFP Ethiopia will serve as the SO project manager; the WFP Ethiopia Head of Finance will serve as the funds administrator. The SO will be managed by WFP Ethiopia in close collaboration with WFP Djibouti. The engineering unit in Rome will jointly select an engineer with WFP Ethiopia to support the project manager. Internationally recognized contract standards (FIDIC) will be applied.
22. While construction is in progress, the WFP Regional Director for East Africa will finalize long term fee-for-service management framework for the HLB and the role it will play as a forward purchase storage facility.¹²
23. The clear strategy of the HLB in Djibouti will be to complement the UNHRD Network¹³ and widen its outreach for non-food items and enhance the rapid supply of such items to the ongoing programmes of key humanitarian players operating in the area.
24. WFP Ethiopia will be closely monitoring the implementation of the recommendations highlighted in the recent study by Boston Consulting Group on the United Nations Humanitarian Response Network and adopt or adapt the recommendation to the HLB requirements.
25. **HLB Project Timeline.** The project will be implemented in four phases as shown in the timeline chart below

Phase 1	Ground Clearing & Leveling (<i>completed</i>)	March/August 2011
Phase 2	Project Layouts & Design by an international firm of designers	November 2011 / January 2012
	Issuing of Tender	February 2012
Phase 3	Construction of the storage facilities, office space and training center	November 2011 to June 2013
Phase 4	Construction of bulk storage facility	November 2012 to June 2013

¹¹GoD would like to develop Djibouti towards a 3rd party logistics hub offering annexed services to businesses supply chain.

¹²Findings and recommendations from a recent Boston Consulting Group study on the United Nations Humanitarian Response Network will be further incorporated into the HLB as appropriate.

¹³ WFP manages a Network of five Hubs strategically located around the world, namely: Panama City (Panama), Accra (Ghana), Brindisi (Italy), Dubai (UAE) and Subang (Malaysia). These Hubs today provide procurement, storage and logistics services to more than forty UN Agencies, NGOs and Governmental Partners. More at www.unhrd.org

26. **Logistics Capacity Building and Skills Transfer.** WFP has been asked by GoD to conduct professional trainings on a broad range of areas including warehousing, trucking, and supply chain management. Eight trainings will be carried out for private sector and Government participants in conjunction with local institutions and the Chamber of Commerce.

Project Costs

27. The total costs of this project are estimated at USD 19.4 million. Annex B provides the basis to the cost benefits and cost recovery schemes of the HLB.
28. As far as WFP is concerned, cost benefits will be achieved through a reduced rate for stevedoring, as bagging will not be required; a lower external transport rate due to faster vessel offloading; and, savings in additional storage which will be required in peak times when cargo needs to be shifted to commercial warehouse in Djibouti town.
29. In addition, cost savings will also be achieved against opportunity costs resulting from a reduction of external transport rate thanks to a faster ship discharge. At present, through SDTV, the maximum discharge rate achievable, considering the bagging element, ranges from 4 to 6 thousand tons per day. When discharge operation will be effected in bulk directly on bulk trucks the discharge rate will reach 10 thousands per day thus decreasing by 60% the time needed to discharge a vessel of 40,000 metric tons.
30. The GoD will be partnering with WFP in the fundraising efforts against this Special Operation.

Risks

31. There are few contextual risks to this project with Djibouti a relatively stable country which has been only marginally touched by recent events in the Middle East. Financial uncertainty could hamper project implementation although active GoD commitment to the SO and strong engagement with regional donors will help to mitigate this risk. It is unlikely that commercial and humanitarian demand for services in the Djibouti Port will reduce significantly in the coming years. The key risk to the HLB is reputational risk should services fall short of the humanitarian community's expectations. WFP seek to mitigate this risk with early and intensive fundraising to ensure costs will be fully covered in order to ensure timely project completion and service start-up.

RECOMMENDATION

This Special Operation covering the period from 1st January 2012 to 31 August 2013 at a total cost to WFP of USD 19,404,251 is recommended for approval by the Executive Director with the budget provided.

APPROVAL

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Josette Sheeran
Executive Director