

# New container port raises Djibouti's international logistics profile



Islamic Development Bank

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Djibouti is strategically located on one of the fastest-growing East–West international shipping routes, at the entrance to the Red Sea. The country is thus ideally placed to expand its role as a shipping hub, especially for containerised goods destined for East and southern Africa. The container terminal at the existing port of Djibouti had been operating at near full capacity for some time (400,000 TEUs<sup>1</sup>), preventing the country from taking advantage of its potential.

Now, thanks to a new container port developed with funding from the Islamic Development Bank (IsDB) and other lenders under a public–private partnership (PPP) financing structure, Djibouti can handle more than twice as much container traffic as before, is able to host the latest generation of giant container ships and is in a position to establish itself as a gateway to the Common Market for Eastern and Southern Africa. This will strengthen Djibouti's economy and foster regional integration through the development of trade.

<sup>1</sup> twenty-foot equivalent container units



The new container terminal at Doraleh (Photo: DP World)

## Dependence on shipping

Djibouti is a small, poor country located on the Horn of Africa. Its land is mostly desert, it has few natural resources including very little fresh water, and it has to import almost all its food. What the country does have is a strategic location at the entrance to the Red Sea (close to one of the world's busiest shipping lanes), the port of Djibouti, a free-trade zone and road and rail links with land-locked Ethiopia. With little in the way of agriculture or industry, the service sector associated with the port of Djibouti accounted for 80% of the country's economy in 2012. Goods to and from Ethiopia account for about 70% of traffic through the port, and demand grew by 18% per year between 1998 and 2007. The planned redevelopment of the railway line between Djibouti and Addis Ababa, the capital of Ethiopia, will further increase the opportunity for Djibouti to serve the Ethiopian hinterland.

With unemployment running at nearly 60% and with over 40% of the population living below the poverty line, Djibouti urgently needs to boost its economic activity – and that is intimately tied to shipping. Studies have shown that there is a real opportunity for Djibouti to increase its role as a shipping hub for East and southern Africa, serving the countries of the Common Market for Eastern and Southern Africa. A large part of this lies in acting as a transshipment point – receiving giant container ships and transferring the goods to smaller ships that can deliver to smaller ports, particularly along the coast of East Africa, and consolidating containerised goods from these smaller ports for onward shipment. However, the port of

Cover photo: DP World

Djibouti had been operating at close to full capacity for some time, especially for containerised cargo, and opportunities to increase its capacity had been limited. Containerised shipping accounts for about 90% of non-bulk cargo<sup>2</sup> worldwide, but the old quay was too short to accommodate more than one large container ship at a time, and the depth of water along the quay was too shallow to accommodate the latest generation of giant container ships.

Forecasts of demand for container handling at Djibouti range from 1.2 to 1.8 million TEUs per year by 2015. The existing port could handle only 400,000 TEUs per year and offered little scope for expansion or to handle the current generation of giant container ships. Achieving a target of more than one million TEUs per year called for radical redevelopment of the shipping facilities in Djibouti.

## Developing a new container terminal

Given Djibouti's limited fiscal resources, raising the funds to develop the country's shipping facilities called for a unique solution based on a private sector participation via PPP. This PPP concession allowed the capital requirements to be raised on the international market.

DP World is a leading operator of maritime terminals, operating more than 60 terminals across six continents. In 2007, DP World Djibouti, a subsidiary of Dubai-based DP World, entered into a build–operate–transfer (BOT) concession agreement with the Government of Djibouti to develop, finance, design, construct, manage, operate and maintain a new container terminal at Doraleh, 8 km from the existing port of Djibouti. DP World Djibouti had been operating the old port of Djibouti since 2000, and thus had extensive experience of the challenges of operating in the country.

The decision to develop the new terminal at Doraleh was based on market analyses and technical studies that highlighted the demand for container services, especially for transshipment, and the suitability of the site for a deep water harbour. The first phase involved construction of a 1,050 m-long quay with a water depth of 18 metres alongside. This allows the port to handle two giant container ships of up to 12,500 TEUs at any one time, or three smaller (but still large) container ships of 8,000 TEUs. The plan also included reclamation of an island adjacent to the new quay to provide 41 hectares for container storage and handling.

The total cost of the project was estimated at US\$396 million, of which US\$133 million was in the form of equity. IsDB was approached to participate in financing

<sup>2</sup> bulk cargo is cargo such as oil, grain and coal that is transported unpackaged

the project. In October 2007, IsDB participated in the financing with US\$65 million, while a consortium of other international lenders provided the balance of the debt finance. The lenders assumed the risk for the project without recourse to the Government of Djibouti, based on the strategic importance of the port, market demand and the experience of DP World in successfully managing similar ports.

### Nearly on time and under budget

Work started on developing the new port in December 2006, and was completed in November 2009, five months after the original target completion date. The final expenditure was under budget, largely because of efficiencies in information technology systems.

### Employment and opportunities

The new port has already generated many benefits for the people of Djibouti. Construction work created jobs for some 500 local workers, and the new port currently employs about 600 people full-time (including more than 40 women) and over 200 part-time. The company is also providing internships for 12–18 graduates each year, allowing them to gain experience in port operations. About 50 staff from the Doraleh Container Terminal (DCT) received training at other DP World ports in Algeria, Brazil, Mozambique and Senegal. The port has created many more jobs in support sectors, including engineering, warehousing, spare parts, information technology and services, catering and cleaning, contributing to the wider development of the local economy. Among its social contributions, DCT has also provided shuttle buses for the local community and contributed to the construction of clinics and schools in cooperation with DP World and USAID. In 2013, it will rehabilitate a nearby primary school and expand the local mosque.

*"DCT has brought a lot of benefit for Djibouti in terms of providing employment opportunity for the Djiboutians, support exports, imports and transshipment to Somalia, Ethiopia and other neighbouring countries."*

Mr Said Omar Moussa, President of the Djibouti Chamber of Commerce and member of the Board of Port of Djibouti

The old port could handle about 400,000 TEUs each year, which was enough to meet the needs of traffic to and from Ethiopia and Djibouti's domestic needs, but not much more. The new port is capable of handling one million TEUs and can accommodate the latest

generation of giant container ships, opening up new opportunities. Not only will it be able to meet Ethiopia's expanding needs for the foreseeable future, it now has the capacity and capability to become a regional transshipment hub serving eastern and southern Africa – a gateway for goods coming into the region and for trade from the region to North Africa, Europe and the Americas. This will help reduce shipping costs to and from the region, reducing local consumer costs and boosting the region's competitiveness on international markets.

In 2012, the new container terminal handled over 743,000 TEUs, up from the 360,000 handled by the old port in 2008. The number of container ships using the port is increasing steadily, averaging close to 60 vessels per month, and berth occupancy is approaching 40%.

*"After the success and progress of the DCT project, there have been a lot of investors and international financial institutions that are interested in financing similar projects in the country."*

Mr Ahmed Osman, Executive Director of the Central Bank of Djibouti

### Looking to the future

Trading volumes in the region are increasing, and port activity is approaching projected levels. DP World Djibouti is actively marketing the port's services and is attracting new shipping lines in order to maximise its capacity utilisation.



The container terminal at night (Photo: DP World)

## Success factors

### Strategic importance

Development of shipping is central to the Government of Djibouti's economic strategy. The new port facilities are vital to the future development of Djibouti's role as a regional shipping hub and its aim of acting as a gateway to the Common Market for Eastern and Southern Africa.

### Economically efficient PPP financing structure

The public-private partnership between the lenders, the Government of Djibouti and DP World was economically efficient and alleviated pressure on the country's already stretched fiscal resources. The lenders assumed the market demand risk, accepted DP World as the strategic partner and expressed full confidence in the country's commitment to support and honour its non-financial obligations under the concession agreement.

### Demand-based development

Market research demonstrated a strong justification for expanding Djibouti's port facilities to serve three main areas: (1) Ethiopian imports and exports; (2) Djibouti imports and exports; and (3) transshipment – pickup and drop off for international shipping lines. Throughput of container ports in the wider region supported by Djibouti doubled between 2000 and 2005, to 32.6 million TEUs. Demand for transshipment of containers had been forecast to increase by up to 280% between 2005 and 2015, to 10.15 million TEUs per year, and to grow to 18.5 million TEU by 2020. In 2005, over 90% of transshipments in the Arabian Sea/Gulf of Aden area were handled by Salalah, in Oman, indicating a market opportunity for a new container handling facility in Djibouti.

### Competence of lead agency and contractors

The executing agency, Doraleh Container Terminal S.A., is partly owned by DP World Djibouti, a subsidiary of DP World, and has been successfully operating the port of Djibouti since 2000. It has a wealth of knowledge and experience of the local operating environment, and is backstopped by DP World, one of the largest operators of maritime terminals.

The contractors engaged by the executing agency had extensive experience in similar construction projects. They were able to deliver

the work contracted largely on schedule and within budget. Close monitoring and supervision by DP World Djibouti contributed to this performance.

### Industry standard equipment

The cranes and gantries used to handle the containers are latest-generation equipment installed in several of the terminals operated by DP World elsewhere.

### Acknowledgements

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