



Forecast Report Executive Summary

Berbera Corridor Diagnostic Study

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Executive Summary

INTRODUCTION

TradeMark East Africa (TMEA) has assigned Maritime and Transport Business Solutions (MTBS) to execute the assignment: TMEA support to the Berbera Corridor Diagnostic Study in Somaliland (Contract dated 21 September 2016). The Berbera Corridor Diagnostic Study is sponsored by the UK's Department for International Development (DFID).

OBJECTIVE

The objective for this Forecast Report is to (1) establish a holistic baseline analysis of the Berbera Corridor, (2) identify gaps, needs and constraints and (3) finally also determine the initial interventions for improvement, covering all aspects that will enable for the corridor to function as an inclusive vehicle for economic growth, both on the Somaliland and Ethiopia sides of the Corridor. Based on various developments stages as foreseen, the initial interventions are prioritized.

Specifically, the objective for the Berbera Corridor development will be threefold:

- Improving the corridor's capacity as corridor for Ethiopian and Somaliland sea-bound trade
- Improving the trade capacity, both official and unofficial, between Somaliland and Ethiopia
- Improving the local economic development along the corridor

APPROACH TO CORRIDOR DEVELOPMENT

The development of a regional corridor requires a multidimensional approach, including infrastructure (seaside and landside), transport and logistics, customs and border management, facilitation of trade and economic development. The current report aims to discuss the required priority interventions for each of these dimensions, to develop the Berbera Corridor in line with its potential. The framework for development of the corridor is based on various stages of development. The following stages of development are foreseen:

- **Basic Corridor Stage:** The Berbera Corridor achieves its basic functionality as transit corridor for Ethiopian and Somaliland sea-bound trade, allowing Ethiopian imports and exports to be transported from the port of Berbera to Addis Abeba area. The Basic Corridor is considered as a step forward from the current situation, in which hardly any (official) transit takes place. In terms of economic development, the basic corridor will already suffice to achieve most of the economic development initiatives.
- **Developing Corridor Stage:** In the Developing Corridor Stage, the Berbera Corridor increasingly functions as alternative to the Djibouti Corridor, although transport across the corridor is not yet fully competitive, both in terms of speed and costs of transport.
- **Competitive Corridor Stage:** In the Competitive Corridor Stage, the Berbera Corridor is fully competitive with the Djibouti Corridor in terms of both speed and costs of transport.

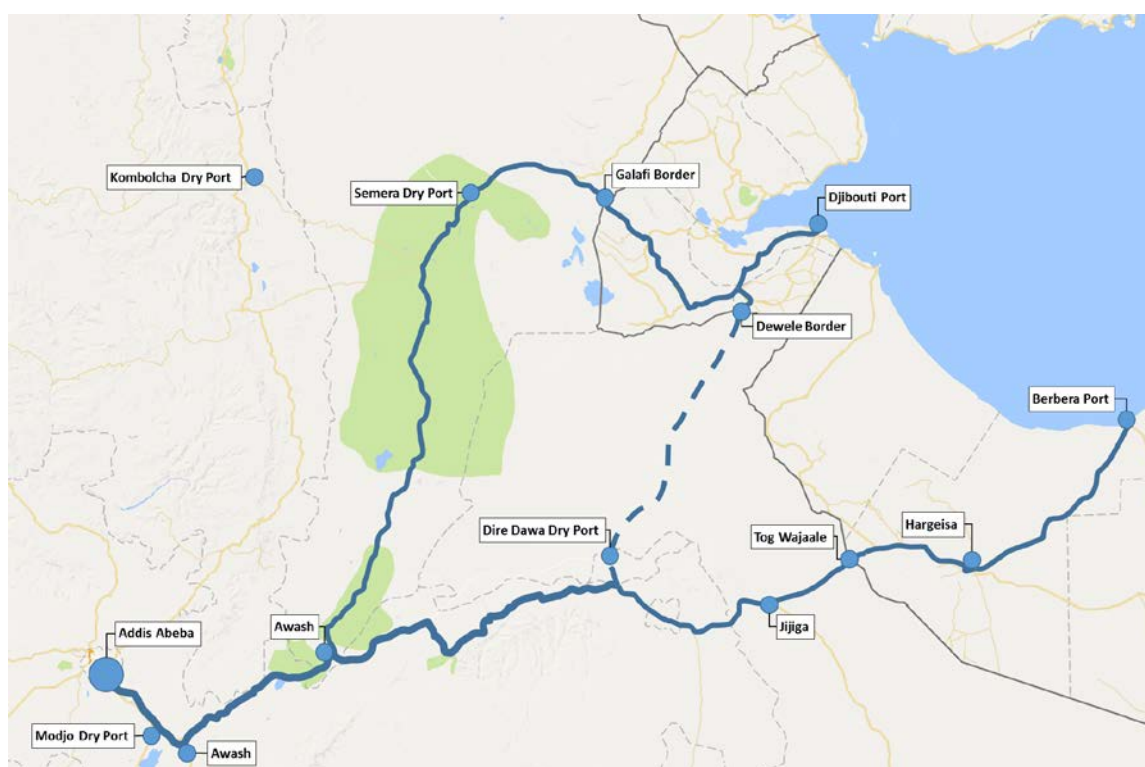
RATIONALE FOR DEVELOPMENT OF THE BERBERA CORRIDOR

The Berbera Corridor has the potential to serve as trade and transit corridor for both the Somaliland and Ethiopian economy. Specifically for Ethiopia, the Djibouti Corridor has and will continue to have a better competitive position, in terms of logistics costs. While the Berbera Corridor currently has a potential competitive advantage in terms of time spent to transport cargo to the Addis Ababa region, that competitive advantage is primarily caused by the lack of customs procedures and other administrative processes that cause delays on the Djibouti Corridor.

- Ethiopia, with a current population of approximately 100 million people, is experiencing impressive economic and population growth. GDP growth rates for the years to come are estimated between 6.5% and 7.5%, while the country's population is assumed to grow up to 120 million by 2025. Thus, Ethiopian import sea-bound non-containerized trade is

expected to increase substantially, from the current 9.0 million tons to 27.5 million tons in 2040. For containers, the total throughput is expected to increase from 600,000 TEU in 2016 to close to 3 million TEU in 2040.

- The port of Djibouti has become Ethiopia's single maritime gateway since Ethiopia's relation with Eritrea, home to Ethiopia's traditional seaports of Assab and Massawa, troubled after a war between the two countries in 1998.
- Private sector investments have resulted in the Doraleh Container Terminal, a greenfield modern container terminal with a capacity of 1.6 million TEUs, as well as the Horizon Oil Terminal, a liquid bulk terminal with modern unloading and storage facilities. Further, the port of Djibouti is currently expanding its dry bulk and general cargo handling capacity through construction of the Doraleh Multi-purpose Port, with help of Chinese investors.



- In terms of hinterland connectivity, the port of Djibouti is also expanding, especially through a recently constructed standard-gauge railway, that is directly connected to the Doraleh terminals. Further, there are advanced plans for the construction of a pipeline connecting the port of Djibouti to one of the larger fuel depots in Ethiopia.
- Although developments of both port and hinterland capacity on the Djibouti Corridor are progressing, the Ethiopian government is looking for alternative ports to decrease dependence on a single port and increase logistic options for Ethiopian shippers. The port of Berbera is one of the most feasible options for development, due to geographic proximity and traditional relationships between Somaliland and Somali-Ethiopians.
- The Berbera Corridor is presently already functioning as transit corridor for Ethiopian imports, but primarily for goods that are transported in containers that are discharged in Berbera, unpacked at the Tog-Wajaale border and (formally and informally) traded into the Somali region of Ethiopia. The Berbera Corridor also acts as Ethiopian export corridor, primarily for livestock exports (formal and informal).
- A chain cost and time analysis between the Berbera and Djibouti Corridors, carried out as part of this assignment concludes that the Berbera Corridor has a substantial competitive advantage in terms of the time required to import goods into Ethiopia, while the Djibouti has a substantial competitive advantage in terms of logistics costs. The difference in time required is primarily caused by the fact that on the Berbera Corridor, there are hardly any customs or administrative processes required to import cargo, while Ethiopian and Djiboutian authorities have implemented a substantial number of forms and procedures to be completed, causing serious delays. The difference in logistics costs is caused by (1) higher seaside transport costs, caused by the fact that shipping lines cannot obtain economies of scale through the port of Berbera and (2) higher landside transport costs, caused by the lack of an efficient truck market in Somaliland and the difference in truck procurement costs due to Ethiopian subsidies that are not applicable in Somaliland.

- The difference in distance between the Berbera Corridor and future Djibouti Corridor (about 150 kilometres) will (ceteris paribus) always result in a lower cost for the Djibouti Corridor for most Ethiopian destinations (except for Harar and Jijiga regions).

BACKGROUND ON BERBERA CORRIDOR SETTING

Somaliland is situated in a region prone to both geo-political and local political turmoil, business-related strategic actions as well as extreme weather conditions. Therefore, decision making with regards to the Berbera Corridor, in both politics and business is influenced by numerous stakeholders and their strategic interests.

- **Ethiopian Free-on-Board directive:** The Ethiopian Free-on-Board directive effectively implies that ESLSE, as the Ethiopian state owned shipping line and logistics company, holds a monopoly position on all Ethiopian imports. As a result, ESLSE's consent and incorporation in planning of the Berbera Corridor Development can make or break the corridor.
- **Ethiopian Politics:** The Ethiopian political system can be characterized as a centrally led government system, in which also economic development and private sector participation is strongly directed by the central government. Practically, this implies that the transit function of the Berbera Corridor will only truly be developed with consensus of the Ethiopian government.
- **State of Emergency in Ethiopia:** Political unrest and resulting protests, that had been going on throughout all of Ethiopia for a substantial period have been partly suppressed with the state-of-emergency declaration of the Ethiopian government in October 2016.
- **Chinese Maritime Silk Road Impact:** The Chinese Maritime Silk Road project is a strategic initiative to increase investments and foster collaboration across the historic Silk Road Route. Specifically, in Djibouti, a Chinese port investor is currently in the process of developing a large new Doraleh Multi-purpose Port, Chinese contractors have recently completed the Chinese funded railway line connecting Djibouti port with the outskirts of Addis Abeba and China is currently in the process of developing the first military base (naval) outside of China in Djibouti. Further, there are talks about potential Chinese equity involvement in Ethiopian Shipping Line and Logistics Services Enterprise (ESLSE). The success of the Berbera Corridor Development is, at least in part, influenced by further investments in the transport and logistics capacity and competitiveness of the Djibouti Corridor.
- **Somaliland not being a sovereign country:** The impact of Somaliland not being a sovereign country is occasionally debated and the exact impact on the development of the Berbera Corridor is unclear. However, as a result of Somalia government indebtedness, obtaining the financial means to fund the various corridor interventions will have to come from private firms willing to take the risk or financial institutions willing to provide grant funding.
- **Establishment of UAE military base in Somaliland:** Recently, the Somaliland parliament has approved the establishment of a military base in Berbera. As part of the deal, the UAE military leases an undisclosed amount of land, close to the shores of the Indian Ocean. It is reported that the authorities in Somalia, Ethiopia and Djibouti are opposing to the development of the military base in Berbera.
- **DP World Berbera versus DP World Djibouti and DP World Bosaso:** The Dubai based port operator DP World has recently effectively become the new owner and operator of the Berbera Port, although exact details with regards to contractual issues and investment plans have not been announced at the time of writing this report. DP World, at present, partly owns and operates the largest container terminal in Djibouti and has recently (through its subsidiary P&O Ports) won a 30-year contract to operate and develop the port of Bosaso in Puntland, a semi-autonomous region in Somalia, bordering Somaliland. The exact strategy for DP World in handling all three facilities, that potentially compete, is unclear. Financially, it would make sense for DP World to utilize the Djibouti facility until maximum capacity is reached, before engaging to develop the Berbera facility.
- **Redistribution of income after DP World hand-over:** As a result of the hand-over of the Berbera Port to DP World, one of the most important consequences will be that the government of Somaliland is no longer in direct control of the assets of the port and also loses the direct income from the port. Historically, the income from the port of Berbera formed a large part of the government income of Somaliland. Depending on the negotiations and agreed contract terms, the exact effect on the Somaliland government finances will have to be determined.
- **Ethiopian share in Berbera Port:** Although unconfirmed at the date of writing this report, it is reported that the Ethiopian government, either through ESLSE, the Ethiopian Maritime Affairs Authority or on general government level, will have a substantial minority share in the DP World company that will own and operate the port of Berbera.
- **Horn of Africa Drought:** At the time of writing this report, the Horn of Africa region is going through a period of severe drought. Regions in Somalia, Somaliland, Ethiopia and Northern Kenya face severe water shortages, leading to failed harvests and loss of livestock. Further, the need for humanitarian assistance is also strongly increasing. Although there is no direct impact on the long term development of the Berbera Corridor, the momentum with both Somaliland and Ethiopian government is currently not with the corridor per se.

REQUIREMENT FOR BILATERAL AND COLLABORATIVE APPROACH TO CORRIDOR DEVELOPMENT

Especially because there is an abundance of insecurities, risks and strategic interests, a successful development of the transit function of the Berbera Corridor requires a bilateral and collaborative approach between the Somaliland and Ethiopian governments. Reaching a bilateral agreement(s) on the development of the Corridor and common understanding of roles and responsibilities is key to the basic functioning of the corridor. Ethiopian guarantees on the volume of cargo routed through the corridor may be required to facilitate private sector investments. However, for the Ethiopian government to guarantee cargo throughput through the corridor, it may require specific guarantees in return.

- The development of the Berbera Corridor requires a bilateral and collaborative approach between Somaliland and Ethiopia. The trade and transit agreements that are being negotiated between both Joint Operating Committees (JOC's) form the basis of the coordinated development of the Berbera Corridor. The priority interventions that result from the present study should be incorporated in the transit agreement or in a separate Berbera Corridor Development Agreement.
- The Berbera Corridor Development Agreement should be an all-encompassing document in which the wishes and requirements of all stakeholders should be incorporated and in which the responsibilities of all stakeholders are clearly agreed upon.
- Because the Djibouti Corridor has a principal competitive advantage in terms of logistics costs and transport distance, the only way to create the critical mass for Berbera corridor and port development is through cargo guarantees from the Ethiopian government. Through ESLSE, the Ethiopian government can provide those guarantees.
- It is expected that the Ethiopian government will require guarantees or measures to be implemented in return for cargo guarantees. It is likely that the Ethiopian government, through ESLSE will require implementation of the ESLSE Multi-Modal model in Berbera. In the multi-modal model, ESLSE is responsible for arranging both maritime and land transport, either through provision of its own services or through slot charter agreements with commercial shipping lines. The multi-modal model currently only applies to containers and vehicles, but ESLSE has the ambition to expand to other cargo types. Ethiopian trucking firms can apply for being a service provider in the multi-modal model through regular public procurement events (bi-annual). Principally, Somaliland trucking firms could apply for being a service provider to ESLSE, however, company registration and vehicle requirements are in line with strict Ethiopian guidelines. Further, ESLSE only licenses the trucking companies that agree with the lowest price offered during a procurement event. It is likely that Somaliland trucking firms will not be able to offer the same competitive prices, as Ethiopian trucks can be bought at substantial discounts (due to government subsidies), while Ethiopian wage levels are generally lower than Somaliland wage levels.
- Further, the Ethiopian government is likely to require substantial improvements in the field of customs and border management, which will be discussed in the subsequent section.
- The requirements and guarantees as discussed are subject to negotiations between Somaliland and Ethiopia and should be included in the Berbera Corridor Development Agreement.

INFRASTRUCTURE, TRANSPORT & LOGISTICS

After improvements on the institutional and policy-related issues have been implemented, including an agreement on the development of the Berbera Corridor and provision of cargo guarantees by the Ethiopian government, there would also be a need to upgrade the infrastructure on the Berbera Corridor. The road and ancillary infrastructure require to be upgraded to unlock the true potential of the corridor. In the longer term, the port capacity also requires an increase to further increase the corridor potential.

- The Berbera Port has the capacity to serve current trade, primarily the container and general cargo trade that is currently handled, however, as soon as Ethiopian transit cargos start to actually increase in line with expressed ambitions (30% of total imports), the port would need to strengthen its' navigational aids, increase its' harbour depth and strengthen its' quay wall construction. The most feasible option would probably be to construct a new terminal as extension to the current port, in line with the plans that DP World has previously announced.
- Further, the Berbera Corridor road, especially on the Somaliland side of the corridor, requires a substantial upgrade to be fully competitive in the long term. For the short term, a bypass around Hargeisa, the capital city of Somaliland, is necessary to avoid cargo trucks from having to navigate through the busy city centre. Secondly, the current concrete slabs used to cross the many rivers that appear during flash floods must be upgraded into permanent river crossings that are available all-year round. In the medium to long term, the road also requires an upgrade of the asphalt to eliminate potholes, bumps

and narrow crossings. In the long term, widening of the road into a dual carriage road may be required to allow for larger traffic volumes.

CUSTOMS AND BORDER MANAGEMENT

Customs and border management is a field that is generally severely underdeveloped in Somaliland. However, for Ethiopia to ever fully utilize the Berbera Corridor, it will need to be guaranteed that that same corridor is not used for informal trade, which effectively reduces Ethiopian customs revenues. Therefore, as part of the Corridor Development, customs and border management in Somaliland requires substantial improvements.

- There is general lack of coherent organization and structure within Somaliland Customs Department, with head office and field office largely acting independently. As a result, the Customs Act, which has been adopted by the Somaliland parliament, is hardly being implemented in the field offices, where most of the actual customs activities take place.
- Customs in Somaliland is pre-dominantly used for revenue generation (and it successfully does, with a contribution of some 60% of government budget), while the functions of trade facilitation and safety and security are generally neglected.
- The application of internationally accepted (or requested) customs concepts such as risk management and customs charging based on the actual value of the goods are not applied by customs officers, although the new Customs Act foresees in the possibility of implementing these concepts. As a result, most of the goods imported through the port of Berbera are physically examined leading to substantial additional time spent in port.
- A substantial number of checks and processes are carried at least double. Other government authorities such as Berbera Port Authority and organizations for health and safety standards require the same documentation and processes to be carried out.
- Although the customs organization is currently not up-to-standards, there seems to be a strong willingness to learn and implement customs procedures in line with best practices.
- There is a relatively low implementation of IT systems within the customs organization. Both in Berbera port as well as at Tog-Wajaale customs border post, forms and payments are manually processed into computers and communicated via email or phone.
- A lack of transparency along the entire corridor creates an environment in which bribery and corruption is evident. Corruptive practices that exist in customs, local government representation and police officers add to the costs of importing in Somaliland.
- As part of establishing Basic Corridor functionality, a comprehensive Customs Improvement Project is required, in which a review of roles, responsibilities and primary tasks for all customs offices (head office and field offices) is carried out. Further, widespread training on the application of the new legislation, including available tools and techniques, implementation of IT-based customs tools and further cooperation with Ethiopian customs is required to establish the the Developing Corridor and Competitive Corridor stages of development.

TRADE FACILITATION

Implementing the customs and border management improvements could result in short term weakening of the competitive position of the Berbera Corridor, creating a financial risk for most Somaliland stakeholders involved. To establish basic transit corridor functionality, substantial improvements are required, especially in the field of institutional alignment between Somaliland and Ethiopia, trade facilitation and policies and removal of other non-tariff barriers.

- From a trade facilitation perspective, there is a large disparity in trade policy (and negotiation capacity) between Somaliland and Ethiopia. Somaliland's trade policy is underdeveloped and incomplete, and often does not extend beyond high-level ambitions. In contrast, Ethiopian trade policy is comprehensive and structured around explicit targets. The country has benefitted from the support of the Enhanced Integrated Framework for more than a decade, and validated a revised DTIS in 2016. Ethiopia has been a WTO observer since 2003, but given sensitivities in finance and telecommunications, it is unlikely that it will progress to full membership soon. Formal trade is highly unbalanced and undiversified, consisting primarily of khat and other vegetable products moving from Ethiopia into Somaliland.
- Aside from the movement of livestock across the border, much of the informal trade consists of non-originating consumer goods that pay duty on entry into Somaliland and are then moved informally across the Ethiopian border. Considering the loss of revenue for Ethiopia that this implies, the potential for expansion or formalisation of this trade is probably weak. Ethiopia has made a range of efforts to formalise livestock trade in the last 20 years, but has had little success due to inherent features of the trade and border.
- Current immigration rules make migration for trade expensive and lack transparency. Useful existing mechanisms such as multi-entry visas are not available at the border. Despite bilateral agreements signed in 2005 and 2016, and provision

in Somaliland law, there is not currently a functioning transit regime providing Ethiopia with access to world markets via Berbera. Instead, inward transit goods usually pay tax to Somaliland authorities at Berbera and are then carried either informally into Ethiopia, or declared to Ethiopia formally but are exempt from duty (for food products).

- One of the biggest hurdles in establishing a transit regime is providing a financial guarantee that transit goods will leave Somaliland. The bond required for this purpose under current rules is not yet available. If this constraint were lifted, then others would still make transit difficult: the lack of secure container freight, the lack of customs' ability to monitor the regime and track the risk associated with different carriers, and customs' understanding of the operation of the regime.
- Alongside corridor development, it is important that Somaliland further develops its general trade policy to take advantage of the opportunities that improved access will bring. Participation in the Enhanced Integrated Framework for LDCs would provide much-needed support for this process, including in-depth diagnostic analysis, a donor coordination mechanism and improved government capacity. Immigration charges are high enough to be a significant barrier to trade and formalisation. Although there is room for procedures to be streamlined and rules to be made more transparent, the main task of reducing the cost of migration will need to be undertaken as part of broader revenue reforms.
- Establishing a functioning transit regime in Somaliland will be a slow process, requiring not only a range of capacity, infrastructure and process improvements, but also large-scale revenue reform to replace the estimated USD 125m raised from goods ultimately destined for Ethiopia. A practical short-term improvement would be to establish an interim regime for selected Ethiopian exports to world markets. This would enable Somaliland to support an important Ethiopian economic objective, using a simplified regime and without losing existing revenue. In the medium term, various customs reform measures will be needed to make a competitive transit regime feasible, and substantial revenue reform will be required to make it affordable.
- The implementation of more stringent customs and border management procedures could result in a substantial decrease in informal trade (and transit) between Somaliland and Ethiopia. This implies that large parts of the Somaliland economy and tax revenues will be negatively impacted by the more stringent customs and border management procedures. Further, the result will be that throughput through the port of Berbera (especially container throughput) will decrease in the short term, since the main competitive advantage of the Berbera Corridor and economic reason for existence of the transit cargo (lack of customs control and charges) will disappear.
- The Somaliland government and traders that are directly influenced by the decreasing informal economic activity may seek compensation for the loss of (tax) revenues. Depending on negotiations between both governments, the Somaliland government could try to include compensating measures in the Berbera Corridor Development Agreement. In part, compensating measures could be obtained through investments in economic development in Somaliland, which will be discussed in a subsequent section of this summary.
- If these compensating measures are not properly taken care of in the various agreements, there is a serious risk of non-implementation of customs and border management reform programs, which in turn, could result in the fact that Ethiopia will not be willing to use the port of Berbera for Ethiopian imports.

ECONOMIC DEVELOPMENT

Once a properly managed Berbera Corridor is implemented, informal economic activities that currently take place along the corridor, such as (1) informal trade between Somaliland and Ethiopia, (2) import of containers and general cargo through Berbera, that are unpacked and (formally or informally) traded into Ethiopia and (3) untransparent charges and fees, charged along the corridor, are required to disappear. However, these economic activities bring significant revenues to Somaliland stakeholders. Simultaneously, improved infrastructure quality and the creation of a competitive transport market are likely to increase the market potential for various industries in Somaliland and Ethiopia. Therefore, it is of utmost importance to support corridor development with forms of economic development (primarily in Somaliland) and trade facilitation programs, that will provide new sources of income, tax and employment. The Somaliland sectors that are most feasible for economic development include:

- Livestock sector: Production of Meat, Hides and Skins
 - Livestock production contributes to 60% of the GDP and about 85% of foreign export earnings. The sector is currently growing at the rate of 2-3% per year.
 - There are two dominant exporters from Somaliland, drawing on informal chains, and tight links between Somaliland and Saudi.
 - The key constraints to the sector growth are low quality of products, insufficient capacity in modern slaughter facilities and high cost and occasional shortage of important inputs, especially in leather production.
 - Significant improvements are possible in quality including training and certification for meat and skins, development of meat cold chain, salt recovery technologies and new tanning facilities able to produce crude and finished leather.

- With these improvements, there is a potential to process livestock originating from Ethiopian side of the border in Somaliland processing capacities and export through Berbera port.
- Investments in higher value added manufacturing in the sector is projected to increase production and exports 2-3 times in the next five years.
- Production of frankincense and essential oils
 - Somaliland and Ethiopia produce 80% of total world frankincense production of 3,000 t/y. All production is exported.
 - However, due to lack of sustainable farming and harvesting techniques, the number of healthy trees is estimated to continue a decline, and the annual production will eventually fall below 600 MT/year.
 - Other constraints include high level of disorganisation in the sector, insufficient capacity for essential oil processing and lack of certification for exports.
 - The sector could be enhanced by introduction of Boswellia harvesting and farming techniques including through co-operative model, development of standards and certification and investment in capacity to process frankincense to oil that have a higher export value.
 - With investment in harvesting techniques, the conservative estimated increase in production is above 1,400 MT/year on a sustainable basis. A more progressive scenario with possible production above 2,000 MT/year would involve the introduction of Boswellia farms. By processing to oil the income from frankincense production could increase 3-5 times.
- Fisheries
 - Despite large maritime resources, production of fish in Somaliland is at about 1,000 t/y constitutes less than 2% of the GDP. The sector is dominated by artisan fisherman with about 450 motor boats.
 - Constraints in transporting and preserving fish are limiting trade. The only exportable production of the sector are shark fins with export value of \$1-1.5 million a year.
 - There are large opportunities for export of fish to Ethiopia which currently consumes five times less fish per person than East Africa average. Current export to Ethiopia is small, around 10-15 tons per year and the export prices are much lower than for fresh fish at Hargeisa market.
 - The main constraints are lack of larger fishing vessels, cold chain storage and transport infrastructure, legal framework and quality standards and enforcement mechanisms.
 - Shorter transit times along the corridor would enable export of fresh fish using appropriate fish transportations trucks and up to three times higher export prices on Ethiopian market than for chilled/frozen fish.
 - By gradually addressing these constraints and attracting investments in the sector, the fish production and export could double in the next 4-5 years mainly based on export to Ethiopia.
- Energy & Extractives
 - For energy Somaliland relies on diesel generators to produce 98% of its output and as a result has one of the highest costs of electricity production in the world at USD 0.8 / kWh (the world average is between USD 0.15 and USD 0.30)
 - Currently Somaliland negotiates the import of electricity from Ethiopia and high power interconnection transmission through Somaliland into Puntland and rest of Somalia which would considerably improve the reliability and cost of electricity supply.
 - The additional opportunity is to start developing solar farms that either deliver electricity to the grid or serve specific industrial and private users. Solar farms combined with high efficiency power storage systems would enable development of small industrial zones along the Berbera corridor with independent power supply.
 - Large mineral resource potential in Somaliland has so far remained untapped and underexplored. Further research would be required to confirm the economic feasibility of industrial scale exploitation.
 - The geology of the country indicates a potential for commercially viable oil reserves and four international oil company currently hold exploration licence. A new modern upstream petroleum legal framework was developed by the government in support to the sector.
- Agriculture
 - Somaliland has estimated 3% of the land under cultivation. Another 7% has the potential for agricultural development.
 - The rainfall, soil (fertility and depth), and topography are the main constraints for agriculture development
 - The main crops grown are cereals mainly Sorghum and maize
 - Agriculture is not offering large economic development potential except at the substance level.
- Cross-border trade

- The cross-border trade between Somaliland and Ethiopia is concentrated in three market chains: livestock, consumer goods and qat.
- Much of livestock trade is informal and concentrated along clan lines. It is hard to estimate the exact cross-border trade as the traders frequently cross the border without any formalities.
- Consumer goods are imported from overseas via Berbera, large amounts crossing formally and informally all along the borders for consumption in Ethiopia. Informal trade is a source of friction because of tax evasion and perceptions that domestic markets are undermined.
- Qat production is in Ethiopia. Estimated value of USD 440 million per year is exported to Somaliland mainly at Tog Wajaale using the corridor. All of imported qat is consumed locally creating a trade deficit for Somaliland.

BERBERA CORRIDOR TRAFFIC FORECAST AND CARGO FOCUS

For Ethiopian cargo, the current competitive positions of both Berbera and Djibouti ports, as well as business considerations of DP World suggest that the port of Berbera should aim to specialize in transit steel and project cargoes during the time of establishing Basic Corridor functionality. ESLSE, the Ethiopian national shipping line and logistics services company, that holds a monopoly position for Ethiopian imports, owns and operates vessels that are suitable to be handled in the current Berbera port and primarily carry steel and project cargoes. Therefore, when establishing basic corridor functionality, ESLSE could have an important role in securing the steel and project cargo to be handled in Berbera. Once the DPW operated container terminal in Djibouti is operating close to capacity, it can be expected that DPW will be investing in upgrading the port of Berbera into a modern and deep-drafted container port.

- With DPW owning and operating a modern container terminal in the port of Djibouti, that is operating far from its operational capacity (less than 60% utilization), it is unlikely the company has an incentive to shift container cargo towards the port of Berbera, especially since the agreed (public) tariffs in Djibouti are currently higher than those currently charged in Berbera. Therefore, the development of Berbera as a container terminal is likely to only make financial sense for DPW, when capacity in Djibouti is saturated and expansion in Djibouti is considered more expensive than expansion in Berbera.
- Further, the current port infrastructure in Berbera is not capable of receiving the largest ocean going container vessels that are capable of berthing in Djibouti. As such, the sea-leg costs for transporting a container to Berbera will always be higher until the port of Berbera achieves the same nautical infrastructure and terminal dimensions as the Djibouti container terminal.
- Finally, the competitive advantage of Berbera (quicker transit times) is likely to disappear as soon as customs and border management practices are improved and aligned with Ethiopian practices.
- The Ethiopian steel and project cargoes imported through Djibouti are primarily transported by ESLSE vessels and discharged at the old Djibouti port. Upon completion of the Doraleh Multi-purpose Port, these vessels will also be handled at the new port. However, the ESLSE vessels do not require the deep-drafted quays of the DMP, as the maximum draft is about 10 meters. Therefore, in terms of seaside transport costs, steel and project cargo could also be handled at the Berbera Port, especially when ESLSE chooses to purposely deviate some of the cargo to Berbera. A limited investment in cargo handling equipment (cranes) is required to handle steel cargoes in Berbera.
- For dry bulk cargoes transported through Djibouti, there is currently a substantial capacity restriction since the SDTV terminal is operating beyond its design capacity. Substantial waiting times for dry bulk vessels have been witnessed in recent years. However, upon completion of the Doraleh Multi-purpose Port, scheduled for early 2017, Djibouti will be able to offer deep-drafted berths with ample storage capacity for dry bulks. The port of Berbera currently does not have any dry bulk handling facilities and construction of these facilities will require a substantial investment from DPW. That investment will only be done once the throughput of the cargoes is somehow guaranteed.
- Liquid bulk cargoes are currently imported through the Djibouti Horizon Oil Terminal, which has limited additional capacity. However, the company has plans to expand its facility, especially since a pipeline between Djibouti and Adama (Ethiopia) is planned. The port of Berbera has a liquid bulk import facility, of which the functionality is unclear.
- Especially during the stage of establishing basic corridor functionality, it is recommended to start with steel and project cargoes. After proper corridor management and customs and border management have been implemented and the Djibouti Doraleh Container Terminal is working at capacity, DPW is likely to invest in proper container handling facilities in Berbera, but only if Ethiopian container imports are somehow guaranteed.

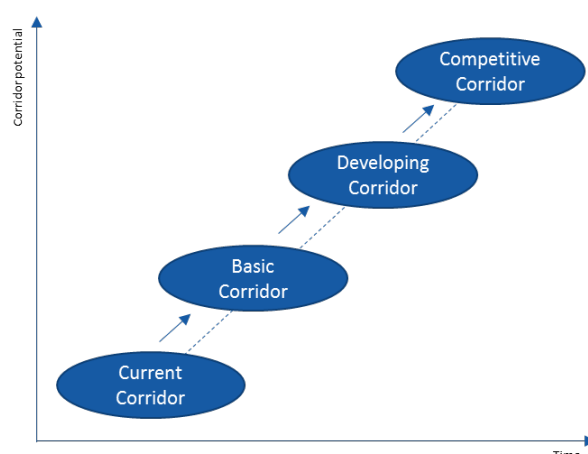
SUMMARY OF INTERVENTIONS

Considering the various analyses and recommendations in this report, it is stressed that the most important intervention to be undertaken as part of the Berbera Corridor Development, is the signing of a Berbera Corridor Development Agreement, in which both the Government of Somaliland and the Government of Ethiopia align their interests and responsibilities. The Berbera Corridor Development Agreement should be an all-encompassing document in which the wishes and requirements of all stakeholders should be incorporated and in which the responsibilities of all stakeholders are clearly agreed upon.

As part this Agreement, it is recommended that both parties decide to implement the Berbera Corridor Development Authority (BCDA), which consists of members of both governments. The BCDA will be an officialised authority, continuing the efforts of the current JOC's.

The principle responsibility of the BDCA will be to carry out the proposed interventions that are identified in this report, to create a competitive Berbera Corridor.

Because there is a substantial gap between the status of the Berbera Corridor and the required status for a truly competitive corridor, it is recommended to start with implementation of the interventions identified under the Basic Corridor development stage. As such, these interventions will also be elaborated in the subsequent reports of this assignment.



The following table provides a summary of proposed interventions for the three different development stages and for all the mentioned dimensions of corridor development. In subsequent reports within this assignment, the interventions for the Basic Corridor stage will be elaborated.

Development stage	Interventions
Basic Corridor	Infrastructure, Transport & Logistics – Port of Berbera • Acquisition of tugboat(s) • Moving dhow operations from current handling location • Introduction of reefer points • Clear separation of general cargo/container operations and livestock operations • Acquisition of seaside handling equipment • Use existing silo's for bulk cargo Infrastructure, Transport & Logistics – Berbera – Tog Wajaale Road • Construction of Hargeisa bypass road • Construction of permanent river crossings Infrastructure, Transport & Logistics – Transport Facilities and border crossing • Limited (container freight stations and fuel stations based on demand) Infrastructure, Transport & Logistics – Logistic Zones • Develop an industrial park at Berbera Port, with reliable and competitively prices access to water and electricity

Development stage	Interventions
Developing Corridor	Infrastructure, Transport & Logistics – Legislation and institutional setting • Signing and implementation of Roads Act, Commercial Banking Act and Insurance Act Customs – Corridor design and management • Establish Corridor Management Committee • Design of Corridor Management Implementation Strategy Customs – Border reform • Review of roles, responsibilities and mandates of all agencies involved in border crossing • Encourage cooperation between agencies and define common risk profiles Customs – Capacity building and development • Train all Somaliland Customs to be capable of acting in line with the latest legislation and policies • Implement Customs code of Conduct • Sign off mission, vision and values paper and spread in customs organization Trade Facilitation – Trade policy, agreements and negotiations • Somaliland to seek support under the Enhanced Integrated Framework • Support cross-government working to enable initial rationalisation of livestock fees • Build capacity of Somaliland trade negotiators, including in communicating with the private sector Trade Facilitation – Immigration • Eliminate fees for Somaliland nationals entering Somaliland • Support both countries to offer existing multi-entry visa options at the border and streamline processing Trade Facilitation – Transit • Support Somaliland to establish a unilateral, positive-list ‘interim’ transit arrangement for Ethiopian exports • Support MOF to develop Customs Act regulations to implement this transit regime • Support ongoing revenue reform to make future transit reforms viable Economic Development – Livestock Sector • Investment in quality improvements to prevent rejection of export products • Implement standards and certification in slaughterhouses • Invest in tanning facilities • Invest in salt recovery technologies to counter salt shortage Economic Development – Production of frankincense and essential oils • Introduce Boswellia tree sustainable farming • Schooling of farmers and certification of frankincense and essential oil products • Establish cooperatives for cooperative processing and education • Invest in processing distillation plant(s) Economic Development – Fisheries • Feasibility for development of fish processing and identification of other market opportunities • Invest in basic infrastructure such as landing sites and cold storage • Identification of investors for processing plant in industrial zone Berbera • Additional training for fishermen in fish handling and management of landing sites Economic Development – Energy & Extractives • Develop solar farm to deliver energy to industrial users • Feasibility study of industrial exploitation of mineral reserves Infrastructure, Transport & Logistics – Port of Berbera • Rehabilitation of quay wall • Dredging of berths and entrance channel to 14 meters • Improve storage yard operations to increase capacity • Execute CFS activities outside the port area (Berbera or Hargeisa) • Build second port gate • Build truck parking facilities outside the port area Infrastructure, Transport & Logistics – Berbera – Tog Wajaale Road • Rebuild Berbera – Tog Wajaale road into single carriage road (2x1), with shoulders allowing for dual carriage (2x2). • Build permanent weighbridges (2x) at port and border

Development stage	Interventions
Competitive Corridor	• Place road signage in Somali and Ethiopian language • Set-up road maintenance fund Infrastructure, Transport & Logistics – Truck Fleet and Driver Skills • Allow Somaliland trucks to work in Ethiopia • Implement road worthiness standards similar to Ethiopian • Set-up professional truck driver training • Implement truck-driver test before obtaining license • Set-up professional workshops • Encourage buying of new trucks, through government assistance Infrastructure, Transport & Logistics – Transport Facilities and border crossing • Implement dedicated truck parking facilities along the corridor, especially in Hargeisa and Tog-Wajaale Infrastructure, Transport & Logistics – Legislation and institutional setting • Further coordination and alignment between Somaliland and Ethiopian policies and regulations. Customs – Border reform • Facilitate harmonisation of documentation and procedures for Somaliland customs and Ethiopian customs Customs – Communication • Train Somalilan customs officers and importers in new valuation methods. • Implement public notices on tariffs and train customs staff on how to apply tariffs • Sign off mission, vision and values paper and spread in customs organization Customs – Capacity building and development • Train SLCD staff on the use and application of the HS system. Trade Facilitation – Trade policy, agreements and negotiations • Support Ethiopia to develop single trade policy document • Support Somaliland to develop a simple trade policy document for non-livestock trade • Support Somaliland to replace all livestock taxes with a single charge, payable electronically • Consider implementation of a joint livestock tax at Berbera alongside facilitation of informal cross-border livestock trade Trade Facilitation – Immigration • Support both countries to establish longer term visa equivalents for trade professionals such as truck drivers Trade Facilitation – Transit • Support commercial finance for Somaliland trucking to upgrade to transit-ready container freight • Support either (a) the creation of a transit bond by a Somaliland financial institution or (b) negotiate for a financial institution in a third state to include Somaliland in an existing product • Support the Somaliland MOF to update regulations, customs to develop standard operating procedures for transit, and train customs officials to implement a transit regime Infrastructure, Transport & Logistics – Port of Berbera • Build new quaywall with a depth of at least 18.0 meters, similarly also dredge berths and access channel to allow for for 18 meter depth. Infrastructure, Transport & Logistics – Berbera – Tog Wajaale Road • Expand single-carriage road into dual carriage-road. Infrastructure, Transport & Logistics – Transport Facilities and border crossing • Construct one-stop border station(s). Customs – Communication • Support for the creation of web based functionality. • Compatibility for data sharing and whole of corridor connectivity should be examined. Customs – Capacity building and development • Implement a Performance Management system Trade Facilitation – Immigration • Integrate immigration into one-stop border procedure • Consider visa-free cross-border travel for Ethiopian and Somaliland nationals Trade Facilitation – Transit • Capacity building to ensure that the full benefits of the transit regime are delivered, including quicker clearance • Strengthen regulation to reduce intermediation in the transit supply chain

The Basic Corridor Implementation Program elaborates the interventions as listed in the previous tables into tangible Basic Corridor Projects. As part of subsequent reports, these Projects will be elaborated. The projects proposed for elaboration include:

- **Establishing Berbera Corridor Development & Management Agreement and Authority:** To implement the various recommendations and interventions proposed as part of this study, it is important to create (1) a bilateral and multi-dimensional approach to Corridor Development and (2) a tangible authority responsible for assuring that the proposed interventions and recommendations are being implemented. Therefore, it is proposed to establish the Berbera Corridor Development & Management Agreement, which in turn establishes the Berbera Corridor Development & Management Authority.
- **Berbera Basic Corridor Road Project:** To establish a working and basic corridor functionality, it is important that the weakest links in the road corridor are tackled. Constructing the Hargeisa by-pass and permanent river crossings will be of key importance.
- **ESLSE Steel Pilot Project:** Ethiopian steel import transports are largely taken-care of ESLSE's own vessels. Further, the Berbera port is capable of handling ESLSE vessels and requires limited investments to be able to handle steel cargoes. Therefore it is proposed to include ESLSE as a lead partner in developing the port of Berbera.
- **Somaliland Customs Improvement Project:** The level of customs and border management in Somaliland is substantially lower than required for functioning as a corridor for import, exports and official transit cargoes. The Somaliland Customs Improvement Project aims to establish a fully functional and compliant customs organisation, through which unofficial trade between Somaliland and Ethiopia is largely eliminated.
- **Somaliland Economic Development Project:** In order to prepare for the elimination of unofficial trade and resulting loss of revenues for the Somaliland government and stakeholders involved in unofficial trade, it is important to increase economic development along the corridor or anywhere in Somaliland, to compensate for the loss of economic revenues.
- **Trade Facilitation Project:** Similarly, it is important to facilitate trade between Somaliland and Ethiopia in order to provide opportunities for economic development along the corridor.

The Pearl in the Shell

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