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WORLD MARITIME UNIVERSITY
Malmö, Sweden

**RESTRUCTURING OF THE PORT INDUSTRY IN
TANZANIA**

Privatisation of the Tanzania Harbours Authority

By

MODEST WILLIAM KAKUSA
United Republic of Tanzania

A dissertation submitted to the World Maritime University in partial
fulfilment of the requirements for the award of the degree of

MASTER OF SCIENCE

In

PORT MANAGEMENT

1999

DECLARATION

I certify that all the materials in this dissertation that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this dissertation reflect my own personal views, and are not necessarily endorsed by the university.

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Abstract

Title of the dissertation: **Restructuring the Port Industry in Tanzania
Privatisation of the Tanzania Harbours Authority.**

Degree: **MSc.**

This dissertation attempts to look into the aspects of the involvement of the private sector in the ownership, development, management and operation of ports in Tanzania. The purpose is to have a critical analysis of the transformation of the Tanzania Harbours Authority from service to landlord status and to evaluate its economic and social impacts. As a starting point, an evaluation of the existing situation in THA has been done. This exercise has revealed critical problems and constraints that have, in one way or another, contributed towards the inefficiency and poor performance of ports. On the other face of the coin, the problems and constraints seem to suggest that public sector dominance in commercial undertakings has failed to steer economic development hence the need to open up doors for more private sector involvement in the provision of port and related services.

Privatisation of ports is a relatively new approach to port management in most developing economies including Tanzania. Some of the countries, which have adopted this approach, have recorded successes including improved performance and efficiency, which outweigh the associated impacts. Admittedly however there is no privatisation menu that is applicable to every port. It is the local conditions that determine what privatisation option is liable to provide more benefits with less adverse impacts. With this in mind, various concepts related to privatisation are discussed in order to have a full understanding of the advantages and disadvantages of the different reform methods practised by various ports in the world. These are applied to the Tanzania environment in an attempt to determine the most suitable option compatible to the local situation. Whatever the privatisation method adopted both private and public sector will continue to have significant roles to play in the provision of port and related services.

Key words: Commercialisation, privatisation, Competition, Technology, Investment, Efficiency.

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LIST OF ABBREVIATIONS

BOT	Build Operate Transfer
BU	Business Unit
CEO	Chief Executive Officer
DAWASA	Dar es Salaam Water and Sanitation Authority
DRC	Democratic Republic of Congo
DSM	Dar es Salaam
DWT	Dead Weight Tonne
EAC	East African Community
EACHS	East African Cargo Handling Services
EACL	East African Conference Lines
EAHC	East African Harbours Corporation
ECA	Economic Commission for Africa
ECLAC	Economic commission for Latin American Countries
EDI	Electronic Data Interchange
ERP	Economic Recovery Programme
ESAP	Extended Structural Adjustment Programme
ESCAP	Economic and Social Commission for Asia and the Pacific
HQ	Head Quarters
IAPH	International association of Ports and Harbours
ICD	Inland Container Depot
IMF	International Monetary Fund
IMO	International Maritime Organisation
IPC	Investment Promotion Centre
IT	Information Technology
KOJ	Kurasini Oil Jetty
LART	Loans and Advances Realisation Trust
MCT	Ministry of Communications and Transport
MEBO	Management Employee Buy Out
MOW	Ministry of Works
NASACO	National Shipping Agencies Company
NBC	National Bank of Commerce
ODA	Overseas Development Agency
PMAESA	Port Management Association for Eastern and Southern Africa
PMO	Prime Minister's Office
PSRC	Presidential Parastatal Sector Reform Commission
RMG	Rail Mounted Gantry Crane
RTG	Rubber Mounted Gantry Crane
SAP	Structural Adjustment Programme
SBM	Single Buoy Mooring
SOE	State Owned Enterprise
SSG	Ship to Shore Gantry Crane

T. Shs	Tanzania Shilling
TACOSHILI	Tanzania Coastal Shipping Line
TANESCO	Tanzania Electric Supply Company
TAZARA	Tanzania Zambia Railway Authority
TCC	Transport Co-ordination Committee
TCFB	Tanzania Central Freight Bureau
TEU	Twenty Foot Equivalent Unit
THA	Tanzania Harbours Authority
TRA	Tanzania Revenue Authority
TRC	Tanzania Railways Corporation
TTCL	Tanzania Telecommunications Corporation
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax

CHAPTER ONE

1. Introduction

1.1 Background

Ports in Tanzania are operated as state undertakings and are subjected to the problems and constraints common to public owned enterprises. The problems and constraints include lack of market orientation, scarcity of investments due to monetary policies and budgetary procedures, inefficiency, the sheltering of employment and the imposition of social obligations through political interference.

In 1993, the Tanzania government decided to undertake major reforms in the management of the economy. The economic reforms were taken in view of continued poor performance of the public sector. The reforms were mainly directed at:

- (a) Limiting government role in running development and commercial undertakings;
- (b) Resource mobilisation drive;
- (c) Active private sector involvement in the development undertakings.

To facilitate private sector involvement, the government decided to undertake restructuring measures on public owned organisations and creating a free market economy based on competition. The fundamental thrust of the privatisation programme is to increase the efficiency of the economy, reduce government budgetary costs, broaden direct ownership of productive assets, and reduce and

reorient the role of government to concentrate on the provision of social and economic infrastructure.

1.2 Definition of the Problem

The Tanzania Harbours Authority is one of the public owned institutions which the government has already initiated some restructuring actions. The process of the privatisation of THA is based on four policy decisions made by the government:

- (a) Declaration of THA as specified corporation under the public corporations act of 1993, amendments of 1994 which gave the PSRC powers and responsibilities for its restructuring;
- (b) Ownership of THA to remain with the government at 100% share;
- (c) Commercial activities be privatised;
- (d) THA be transformed into a Landlord Port Authority.

Implementation of the above policy decisions commenced with the commissioning of a World Bank financed THA Commercialisation Study in 1996 followed by the PSRC initiated study known as “Tanzania Port Privatisation Review in 1997”. Based on the recommendations of the two studies, THA adopted the approach of creating standalone terminals for privatisation under the “Autonomous Strategic Business Units” concept. The Strategic Business Units, which were identified, are:

- (a) Container Terminal;
- (b) General Cargo Terminal;
- (c) Bulk Liquid Terminal;
- (d) Grain Terminal;
- (e) Coastal Terminal;
- (f) Marine Services;
- (g) Tanga and Mtwara Ports.

Assessment of viability for privatisation of each business unit is based under the following main criteria:

- (a) Operational criteria
This entails assessing the BU potential to operate as an independent cost/profit centre, market orientation and whether it is a core business of the authority;
- (b) Financial consideration - Does the BU make positive or negative contribution to THA;
- (c) Additional investment requirements;
- (d) Impact on employment;
- (e) Integration with other business units (strategic implications);
- (f) Attractiveness to private investors including markets considerations and price.

1.3 Significance of the Problem

The transformation of THA from public to more private sector participation involves a critical analysis and evaluation of the organisation's institutional framework and its operating environment. The institutional framework influences the degree of autonomy enjoyed by THA as well as its business culture and decision making process. The operational environment is currently not very favourable because of increasing competition from other ports in the region, which has resulted in loss of the market share. On the other hand, the organisation has been facing fund raising problems for investments and to acquire appropriate technology particularly in equipment and IT sector. These are some of the impediments that make THA to be less responsive to market demands and the solution lies in increased private sector participation. Partnership between the public and private sector is the only way that would ensure a balance between national interests and economic development on the one hand, and investors' interests and commercial operation on the other

There are a number of different forms of introducing private sector participation in ports. While each has its own characteristics, the involvement of the private sector in each case calls for some explicit regulatory arrangement. In any case continuing public participation forms part of the broader regulatory framework and may carry the risk of short-term political priorities and other non-commercial criteria, which would undermine efficient enterprise performance.

The commercialisation/privatisation measures being undertaken are focused on making major changes within THA in terms of organisation and structure as well as its culture. The organisation is to change from the current high degree of centralisation to decentralisation of operations. THA has adopted and commenced implementation of major recommendations by setting up business centres based on cost or profit. The cost centres are service oriented business units without their own income. The objective is to achieve a high cost transparency to provide THA management with the appropriate information to justify and manage the costs. The profit centres are market oriented business units with their own income whose objective is to achieve a high transparency to provide THA management with the appropriate tools to manage costs and revenue.

Privatization of the commercial activities of THA is directed at:

- (a) Improving the efficiency of port operations;
- (b) Enhancing the quality of services;
- (c) Improving the competitiveness of the Tanzania ports vis-à-vis other regional Ports.

THA had completed by 1996, the formalities for the privatisation of its commercial services. The process is currently on going and is being implemented in stages. The container terminal has been nominated the first candidate for privatisation, tentatively by May 1999. The time frame for the rest of the business units is end of the year 2000.

1.4 Objectives and Scope of the Dissertation

The objectives of this study are:

- (a) To examine the essence of privatisation of the Tanzania Harbours Authority;
- (b) To assess the privatisation options adopted by THA;
- (c) To assess progress in the privatisation process;
- (d) To examine and evaluate the economic and social impacts of privatisation;
- (e) To make proposals and recommendations regarding the future role of THA after the privatisation of its commercial activities.

1.5 Study Methodology

The study involved literature search of the published and unpublished materials relating to the management of ports. This included an analytical review of THA performance in terms of its operations, financial, capital investments and human resources development.

Contact with the THA, Presidential Parastatal Sector Reform Commission (PSRC) and Ministry of Communications and Transport to collect information on the current situation and future policies on restructuring of THA were made. An analysis of the privatisation options was made and aligned with the mission and the objectives of privatisation. Further literature search and analysis was undertaken to examine how other port authorities did implement the privatisation process, including transformation to landlord status. Lastly, information on local and employee's participation in the privatisation process was also sought. Visiting experts' views in the field of ports and commercialisation/privatisation of ports at WMU have been analysed and incorporated where appropriate.

1.6 Limitations of the Study

This paper was being prepared at a time when the privatisation process for THA has just commenced. So far not a single business unit has its privatisation concluded. The container terminal which has been designated the first candidate of privatisation, is still in the initial stages towards a lease arrangement. The study has not benefited from the initial privatisation experience. Due to time and fund constraints, it was not possible to collect and evaluate primary data and information related to the study thus limiting the scope of study materials to secondary data and information which was also not easily available.

Summary

The dissertation comprises of six chapters. Chapter one gives an overview of the study by highlighting on the subject under discussion, its objectives and how it has been covered. Chapter two gives a background of the port industry in Tanzania including its mission. It also looks into the ports' past performance and identifies the problems and constraints surrounding it. Chapter three discusses the public sector in Tanzania and the need for enhanced private participation. Various port reform methods are discussed in chapter four and their application to the Tanzania environment is covered in chapter five. The study concludes by giving some recommendations on various aspects related to the private sector participation in the ownership, operation, development and management of ports in Tanzania.

CHAPTER TWO

2. Tanzania Harbours Authority as an Operating Port Authority

2.1 Institutional Set Up and Mission

2.1.1 Introduction

The Tanzania Harbours Authority (THA) herein referred to as the authority, was established by the Act of Parliament No.12 of 1977. The organisation came into existence by assuming the functions of the then East African Harbours Corporation (EAHC) and the East African Cargo Handling Services (EACHS) which ceased operations following the collapse of the East African Community (EAC). The Government of the United Republic of Tanzania owns THA 100%.

According to the Act, THA is charged with the following major functions:

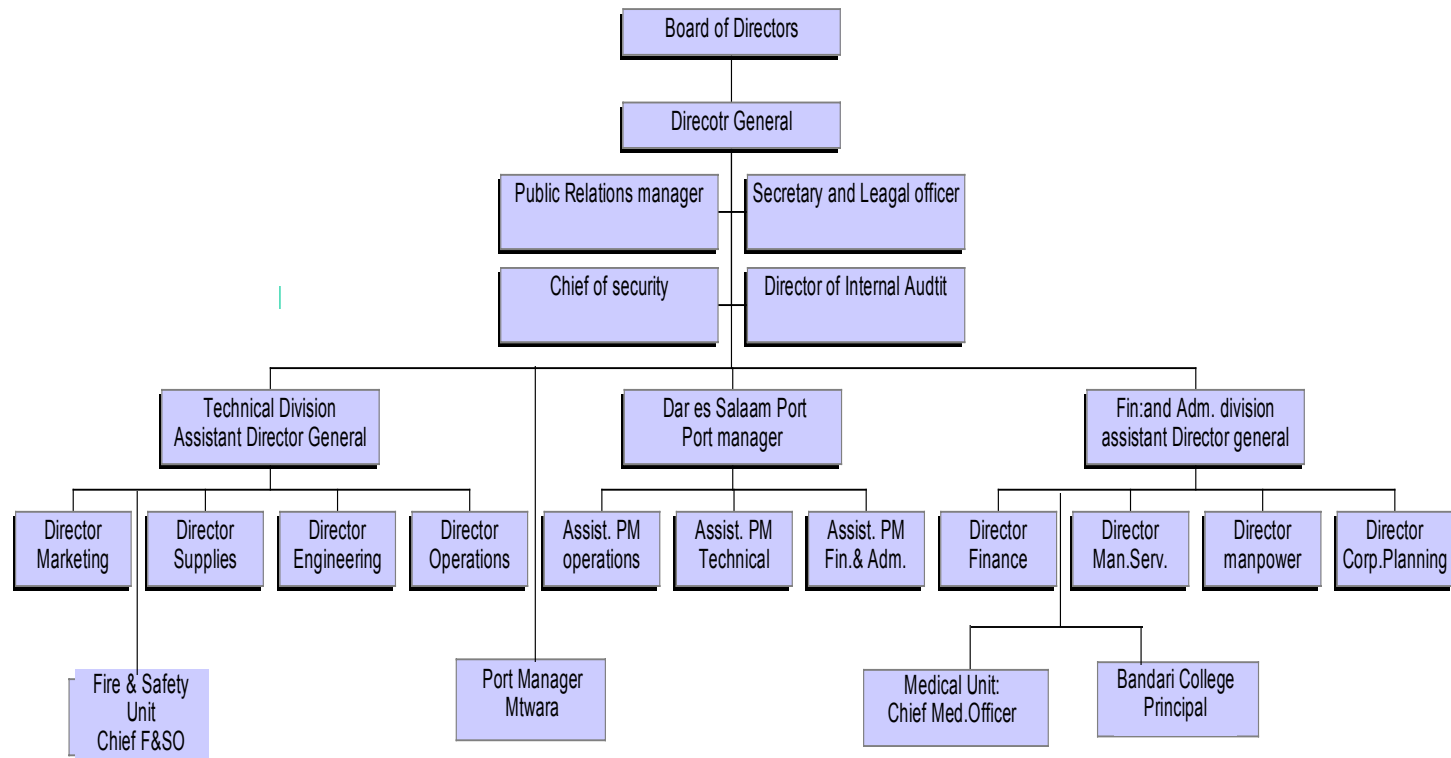
- (a) to establish and operate a co-ordinated system of harbours;
- (b) to provide facilities relating to harbours and provide harbour services and services ancillary thereto;
- (c) To develop, improve, maintain, operate and regulate harbours. In summary, THA is a public corporation which has been given the responsibility to own, operate, manage and maintain all Tanzania's sea ports.

2.1.2 Organisational Structure

The business and affairs of the organisation is vested under the Board of Directors. The board is responsible for setting the policy, reviewing the objectives, assessing management's performance and directing strategies for performance improvements. The CEO is the Director General, responsible for the proper and efficient conduct of the business and activities of the authority. The Director General is assisted by two assistants who head the Technical Services Division and the Finance and Administration Division. The Technical Division is made up of the departments of Engineering and Technical Services, Operations, Supplies and Marketing while that of Finance and Administration is comprised of departments of Finance, Management Services, Manpower Development and Administration, and Corporate Planning. A director heads each of the departments. By virtue of more activity at the Dar es Salaam port, the Port manager is at the equivalent level to that of Assistant Director General and is assisted by three Assistant Port Managers in the areas of operations, finance and administration, and technical. The structure at the ports is a replica of that at the head office. The organisation structure of THA is top heavy. The decision-making machinery is centralised at the head office. Although many of the activities are performed at the ports, the Port Managers do not have much authority to make important decisions concerning their ports. Decisions concerning issues such as investments, budgets and use of funds, hire of labour and personnel placements, training etc are the prerogative of the Head Office.

The existing THA Organisation Structure is shown in **Figure No. 1**.

THA Organisation Structure



Some Aspects of the Existing Organisation Structure

The two posts of Assistant Director General were created in 1990 following a review and implementation of the scheme of service. This move created one more ladder between the chief executive and heads of the functional departments. But the two posts were never filled up when they fell vacant in 1994. The size of the organisation in terms of the number of functional departments has also been expanding over time. The creation of the departments of Management Services and that of Marketing in 1990 are some of the noticeable examples in this regard. These moves have resulted in the organisation to be “top heavy” and bureaucratic. The effectiveness of the new structure is not clearly evident as yet. As a matter of fact a critical evaluation of the current structure reveals some aspects of bureaucracy, overlapping of functions and duplication of duties by the various functionaries in the organisation.

The extended levels of delegated authority translates to an overwhelming number of people in the decision making process. Management is concentrated at the head office. At the port of Dar es Salaam there are three Assistant Port Managers responsible for Port Operations, Technical and Finance and Administration. The port at the same time maintains the positions of Terminal Managers and heads of functional departments such as Finance, Supplies, Manpower etc. One can question the effectiveness of this kind of delegation of authority because the same services are also found at the head office located a stone throw away. In such a situation, it is not suprising to find elements of duplication of work and overlapping of duties. This leads to increased costs and inefficiency. Therefore it is in the interest of THA to have a pro-active and flexible management that is capable of providing quick response to customer demands and which will also direct changes in line with changing port and market environment. Certainly several functions can be combined with a view to having a streamlined organisation structure that provides for efficient, cost effective and authoritative decision making at all levels.

2.1.3 Corporate Mission.

The corporate mission of THA is “To be the gateway for the Eastern, Central and Southern Africa international trade totally dedicated to providing and facilitating quality, value added, competitive and profitable port and maritime services using state of the art technology and highly motivated workforce”. In line with this mission THA is committed to providing port services to meet the present and future needs of its customers through optimal use of the physical, financial and human resources. Towards this long-term goal and in recognition of the strategic location of the port of Dar es Salaam for serving the landlocked countries’ international trade, beginning 1985, THA initiated major developments, which resulted in:

- (a) Expansion of the port capacity for both general cargo and container traffic to enable the port of Dar es Salaam to handle increased volumes of traffic at any time;
- (b) Modernisation of the port through the acquisition of modern cargo handling equipment and facilities for enhancing port performance, productivity and efficiency;
- (c) Training of staff to equip them with modern cargo handling techniques to enable them to be more efficient cost effective and achieves higher productivity;
- (d) Introduction of flexibility in the management of the tariff, customer care and inculcate commercial/business culture and be more market oriented.

2.2 Physical Performance Review.

2.2.1 THA Ports

THA owns and operates three major ports namely Dar es Salaam, Tanga and Mtwara. Dar es Salaam is THA’s principal port with rated capacity to handle 10.1 million tons of general cargo, containerised cargo, dry bulk and liquid bulk cargo per

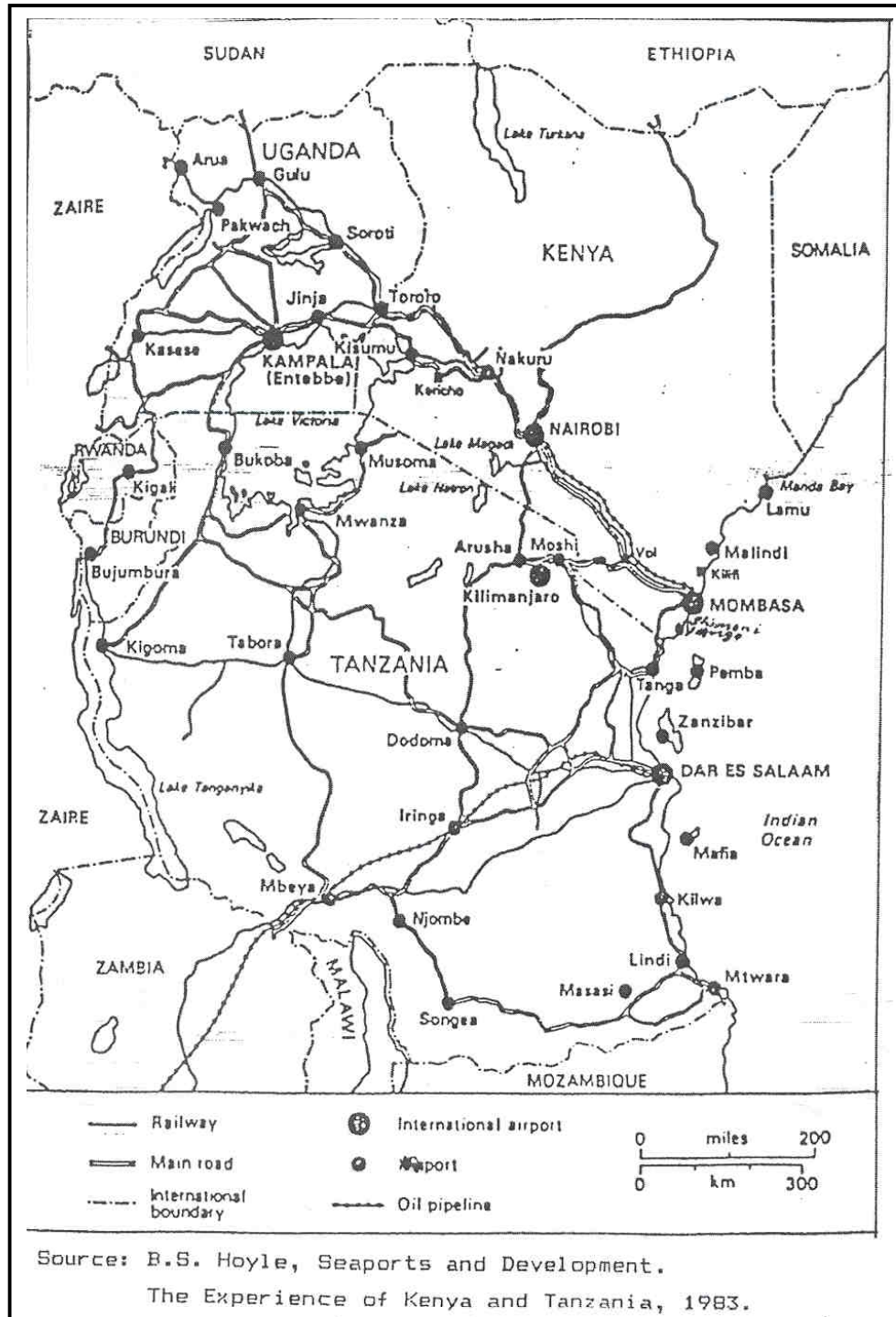
annum. The port handles more than 90% of Tanzania's international trade and is also an important gateway for the landlocked countries of Zambia, Malawi, and Republic of the Congo, Burundi, Rwanda and Uganda. Tanga port is the second in size with a rated capacity to handle 500,000 tons of general cargo per annum. The port is strategic for the agricultural rich North Eastern parts of Tanzania where Coffee and Sisal are the major export commodities. Mtwara port has a rated capacity to handle 400,000 tons of general cargo. The port is an important link for the southern regions where surface transport is very acute. The port is renown for its exports of cassava and Cashew nuts. Besides the three major ports THA is also responsible for the small ports which include Kilwa, Lindi and Mafia. **Figure No. 2** shows the geographical location of the three major ports under THA.

2.2.2 Performance Review

Physical performance review for THA explains how the authority has fared in terms of cargo throughput, shipping traffic and productivity. The review provides details on the amount of cargo handled by the authority and the number of deep-sea ships that called at THA ports for the last five years. It also shows the rate at which particular types of cargo and ships were handled indicating the level of utilisation of the resources and facilities as indicated by berth occupancy, gang output, container moves, ship turnaround time and cargo dwell times. The performance indicators are compared with the rated capacity to determine the level of utilisation of the ports' facilities, rate of standard performance, and trend analysis to determine the behaviour of a particular indicator as to whether it is increasing or decreasing over time. Comparison with the set targets is also made to measure management's effectiveness in supervision, managing the resources, understanding of the external and internal environment of the organisation.

Figure No. 2

Geographical Location of THA Ports



2.2.3 Cargo Throughput

Cargo traffic through THA ports is generally a function of the economy countries using the ports and also the performance of the inland transport system and the extent at which it can effectively compete with other regional ports. Adverse weather conditions and the on going civil disturbances have affected the economies in the Democratic Republic of Congo, Rwanda and Burundi. Thus cargo throughput for THA for the last five years has been in the range of 4 million tons to 5.2 million tons per annum. This is less than 50% utilization of the rated capacity of the ports. The trend in the throughput has not been good too. As can be seen from table no 2 below, the general trend shows decreasing cargo throughput. Regarding the decreasing trend in transit traffic, besides poor economic performance of the individual countries, the other major contributing factor is competition among the ports in the region, which has intensified, in recent years. The opening up of the Nacala and Beira corridors in Mozambique which were non operational due to the civil and also that of Durban in South Africa following the collapse of apartheid have contributed to the diversion of traffic from THA ports. In this regard THA has lost a sizeable share of the Central African market to Mozambican and South African ports. Notably here is Zambian copper which THA ports used to handle more than 80% during the 1980s but now is handling only about 50% of the Copper exports. There has been a fall in Zambian copper production from 422,000 tons in 1990 to 328,000 tons in 1997. Further losses of Zambian traffic are likely. This will affect the amount of transit traffic for THA since Zambia has traditionally been the most important user of the port of Dar es Salaam among the transit countries. Traffic from the democratic republic of Congo has fallen partly due to the collapse of the country's copper industry. Malawi traffic also is disappearing very fast from the port of Dar es Salaam and has mainly been diverted to Nacala and Beira after the end of the civil war in Mozambique. Efforts to capture some of the Uganda traffic from Mombassa port in Kenya are yet to bear any fruits. As for Burundi, traffic has mainly been affected by the sanctions imposed on it to which Tanzania has implemented with zeal. One could also point out here that

inadequate and poor services of the inland transport system that connect Dar Es salaam port with the hinterland is a major constraint for an effective competitive stance of the port.

Total traffic has also been declining as a result of the stiff competition from other ports in the region. These include Mombassa in Kenya, the strongest competitor for traffic from Uganda and Rwanda, The ports of Beira and Nacala which are main alternative ports for traffic from Malawi and Zambia, and the port of Durban and East London in South Africa for Zambian cargoes. The prospects of improvements are not particularly bright at least as far as the traditional routes and types of cargo are concerned. To improve its competitive standing THA must strive to improve the level of service that it offers to its two main customer groups, that is shipping lines and shippers.

Table No. 1 shows trend in total cargo traffic handled during three last five years.

Table No 1.

Total Cargo Throughput – DWT

(000,000)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Imports	3.84	3.24	3.47	3.14	3.05	3.36
Exports	1.29	1.10	1.17	1.00	0.88	0.86
Total	5.13	4.34	4.58	4.14	3.93	4.22
Transit	2.16	1.76	2.16	1.39	1.32	1.18
Break Bulk	2.83	2.43	2.58	2.03	1.73	1.88
Dry bulk					0.17	0.21
Liquid Bulk	2.30	1.91	2.00	2.11	2.03	2.13

Source: THA Annual reports.

2.2.4 Shipping Traffic

Shipping traffic also did not record any significant improvements. Dry cargo ships shows a decreasing trend from a pick of 649 ships in 1993/94 to a low of 604 ship calls in 1996/97 as can be Seen from **Table No. 2** below. However, ship calls for tankers have been increasing from 100 ships in 1992/93 to 126 ships in 1995/96, an increase of 26%.

Table No. 2

Shipping Traffic

	1992/93	1993/94	1994/95	1995/96	1996/97
Dry cargo Ships (No.)	622	649	646	640	604
Average stay in port (Days)	4.6	5.9	5.1	5.5	4.0
Tankers (No.)	100	102	115	126	120
Average stay in port (Days)	3.3	4.6	3.0	3.5	4.0

Source: THA annual Reports.

2.2.5 Productivity

Port productivity is influenced or affected by a number of factors. The major factors include:

- (a) Type of cargo being handled;
- (b) The number of people employed in a gang;
- (c) Mechanical equipment being used, type of ship being worked;
- (d) Stowage of cargo in the holds and storage area conditions.

2.2.5.1 Gang Productivity

For THA, the most important productivity indicators are the gang output for general cargo and containerised cargo, ship turnaround time and cargo dwell times. The

general cargo gang performance is currently at the average of 130 tons per gang per shift compared to the target of 170 tons per gang per shift.

At the container terminal, the average performance currently stands at between 12 moves per hour to 16 moves per hour. Just like in the general cargo productivity, it is very low compared to the target of 20 moves per hour. There is however signs of improvements as the workers get used to the new technologies. Productivity for the last 5 years has been very low as shown in **Table No. 3** below.

Table No. 3

Trends in Port Productivity 1992/93 –1996/97

	1992/93	1993/94	1994/95	1995/96	1996/97
General cargo Tons/gang/shift	124	143	129	116	126
Container Traffic Moves /hour	12.3	13.30	15.2	14.2	15.8
Berth occupancy Container	61	48	51	45	55
Berth occupancy General cargo	60	64	55	60	55
Dwell time container - days	13	18	27	22	36

Source: THA Annual Reports

The reasons for not attaining higher productivity are:

- (a) There has not been enough investment in equipment and facilities at both the container and general cargo terminals. There is particularly very low availability of yard tractors and trailers. Major equipment is functioning satisfactorily, however, the ability to get cargo /containers to and from the SSGs is affected by the relatively low availability of backup equipment such as yard tractors trailers and front loaders;
- (b) The labour force is not motivated enough for them to put more efforts and value the ports' customers hence there is lack of punctuality, lost time between shifts, absenteeism and lack of discipline among the workers;

- (c) Other problems, which affect productivity, include, cumbersome operating procedures, poor supervision, poor planning of the operations, lack of computerised control system and absence of a good radio communication system.

The above problems have greatly affected the productivity in THA such that the set targets are never realised and the levels are far below regional and international productivity averages as indicated in **Table No. 4**

Table No 4

Comparative Productivity Levels – Container Terminal Dar es Salaam

Productivity factor	THA Actual Performance	THA Target	Mombasa Port	Durban	International Recommended
Berth occupancy	55 %	50 %	65 %	50%	50 %
Dwell times	36 days	7 days	15 days	3 days	3 days
Moves per SSG/hour	12	20	10	22	25
Lifts per Ship hour	13	20	13	25	25

Source: THA Annual Reports and Port Statistics Mombasa

2.2.5.2 Berth Occupancy

The percentage of berth occupancy is directly related to the productivity of loading and unloading of vessels. Improvements in productivity will reduce berth occupancy. As a rule, occupancies in the 55% -65% indicate a requirement to consider planning for berth extensions. Serious queuing generally starts to appear as occupancies move above this level. However, increased efficiency in terminal operations should cut down berth occupancy. (See **Table No. 5**).

Table No. 5

**Percentage of Berth Space Occupied in One Year – Container Terminal
1996/97**

Berth	Percentage vacant	Occupancy not working	Occupancy working	Occupancy not workable	Total % occupancy
9	40.39	9.61	50.00	0.00	59.61
10	37.04	11.02	51.94	0.00	62.96
11	56.92	9.64	33.44	0.00	43.08
All berths	44.78	10.09	45.13	0.00	55.22

Source: Study for the Concession of the Container Terminal – CPCS Transcom, 1997

2.2.5.3 Containers Dwell Times

Container dwell times at the container terminal Dar es Salaam port is very high up to 37 days as can be observed from **Table No. 6**. Excessive dwell times have immediate impact on productivity. The cargo occupies valuable space in the active operational areas thus creating congestion and additional handling. It also interferes with the productivity of other essential activities. Excessive dwell time is also a very serious problem as it reduces the terminals throughput capacity in some cases preventing the operator from offering services to other potential customers.

Table No.6

Average Container Dwell Times in Days 1995-1998

Container type	1995	1996	1997	1998
Imports	36	31	37	36
Exports	5	3	10	8
Empties	32	13	8	10
Average	25	18	22	22

Source: THA Annual Reports

The high dwell times are an illustration of the inadequate capacity and highly inefficient inland transport system, which connect the ports and their hinterlands. Both rail and road transport is in poor state and is critically in need of major maintenance. Cumbersome and long customs procedures, which are a common feature in Tanzania also, contribute very much to the high dwell times.

2.3 Financial Performance Review

Since its inception, the financial performance of the THA has been satisfactory. Over the last five years, beginning 1992/93 the Authority's revenue increased steadily from Tshs. 28,089.61 million to Tsh. 44,058.96 million. This is an increase of 56.85% over the five-year period. On the other hand, expenditure during the said period increased sharply from Tshs. 21,683.24 million to Tshs. 38,676.30 million, which is an increase of over 78%. The high increase in expenditure was a result of three major policy decisions that were taken during the period under review. Firstly, the authority decided to increase the salaries paid to its staff by 65% in 1994 and again in 1997 as a measure towards improving take home amount for the workers. Prior to this move the salaries of the workers were generally very low. Increase in salary was also expected to boost their morale and hence increase productivity. Secondly, the Authority also decided to reduce the number of its workforce gradually effective 1995 through voluntary retirements and later on retrenchment. Handsome payments for voluntary retirement and retrenchment were effected in 1995 and 1996 respectively. Thirdly, the authority had in 1992 decided to undertake a revaluation of its assets. Thus in 1993 the land and marine based assets were re-valued. This exercise resulted in the increase of depreciation expenses by about 46%. The financial performance of THA for the last five years is presented in **Table No.7**.

Table No 7**Financial Performance: Financial year 1993- 1997**

(In million T. Shs)

	Fy1993	Fy1994	Fy1995	Fy1996	Fy1997
Operating Revenue	28,089	37,886	42,068	49,106	44,059
Operating Expenditure	21,683	29,910	41,683	41,992	38,676
Operating Surplus	6,406	7,976	385	7,114	5,383
Non operating Revenue	2,025	1,806	3,101	4,359	2,212
Non operating Exp.			3,797	277	
Surplus (loss) before tax	3,880	4,571	(311)	11,196	7,524
Gross fixed assets	56,542	60,088	61,989	64,385	72,289
Investment	949	764	3,895	5,379	
Net Current assets	11,529	18,829	25,654	26,289	26,148
Loans	26,060	36,583	46,953	46,855	49,571
Average revenue/ton	5,507.77	8,810.69	9,185.19	11,719	11,210.94
Average cost/ton	4251.61	6,955.82	9,101	10,022	9,841.22
Profit (loss)/ton	1,256.15	1,854.88	84.11	1,698	1,914.50
Return on Capital Employed	8.65%	11.5%	4.8%	9%	9%
Profit margin	13.8%	12.1%		27%	24%
Operating Expenses/Revenue	87.1%	88.5%	98.0%	85.5%	87.8%
Return on net fixed assets	6.86%	7.6%		17.38%	10.40%
Debt equity ratio	0.61	0.85	1.12	1.05	1.00
Debt coverage ratio	2.61	2.16	1.87	1.79	1.97

Source: THA Annual Reports and Accounts.
 NB. 1 US \$ = 650 T. Shs in 1997

Profitability

Three ratios are used to measure the profitability of the Authority. In terms of profit margin, this has been fluctuating but generally increased from 13.8% in 1992/93 to 17.1% during 1996/97. The return on capital also increased from 8.6% to 11.5% in 1993/94 and settling at 9.5 during 1996/97.

Debt equity ratio has been rising from 0.61 to 1.0 signifying that the Authority has increased its borrowing rate in recent years. However, the Authority was still

operating within the limits set by the World Bank which has put the debt equity ratio not to exceed 1.5 i.e. 60:40. In any case the increased borrowing was necessary for the Authority to finance the modernisation and expansion of the ports of Dar es Salaam and Tanga.

In terms of liquidity, THA is one of a few public organizations in Tanzania with very good liquidity standing. This is important for a big organization like THA to have the ability to finance her short-term obligations as well as having adequate funds for day today operations. This has enabled the Authority to escape any financial embarrassments, which could disrupt the operations activities. Of unique importance also is the authorities ability of having adequate funds for payment of salaries to the labour force since delayed payment of salary in a port industry can spark off the labour to loose their morale, go for a go slow and ultimately go on strike.

2.4 Development Programme

In order to cope with the trends in international shipping and trade, and in response to market demands for better services, THA, beginning 1985 embarked on a major investment programme for the ports of Dar es Salaam and Tanga. The purpose of the investment programme was to rehabilitate the existing port facilities and equipment and to modernise them. Investment in infrastructure, equipment and technology was necessary to cope with the changes in maritime shipping and to withstand competition. The major thrust has been on providing facilities to handle the increasing volume of containerised cargo. The development program for the port of Dar es Salaam is being implemented in phases. During phase 1, which was carried out in 1985-1990, the container terminal came into place by conversion of existing general cargo berths 9, 10 and 11 and further investments in the provision of container handling equipment. Other investments were in rehabilitation of general cargo berths 1-8 plus cargo handling equipment, construction of the grain terminal, rehabilitation and upgrading of the Kurasini Oil Jetty for handling of white products,

and technical assistance and training. Phase 2 commenced in 1990 up to 1994 providing investments towards extension of container stacking yards at the terminal and ICDs, upgrading of the KOJ, repairs to piles and fenders for berths 9, 10 and 11, and purchase of additional cargo handling equipment for the general cargo and container terminals.

After successful completion of phase 2 in 1994, THA continued with investments under phase 3, which is still on going. Under this phase, the Dar es Salaam Port Entrance Channel Improvements project was implemented and completed in 1997. Completion of this project has a major impact towards improvements of the port productivity and overall port performance, as it will allow night navigation and bigger ships to call the port. However the improvements of the Entrance Channel are not sufficient to enable the port to handle bigger ships beyond the 2nd generation. The port is still constrained in equipment, adequate water depth at the berths and navigational channel hence it cannot cope with the demands of the ever-increasing size of container ships as can be observed from **Appendix 2**.

The authority continued to improve the equipment position by purchasing more cargo handling equipment through a loan from the European Investment Bank (EIB) in 1997. Unfortunately however, the project on the Replacement of the Single Buoy Mooring Pipeline used for handling of crude oil for the refinery in Dar es Salaam and Ndola, Zambia could not be implemented due to non-availability of funds. The World Bank, which has been co-ordinating, the Dar es Salaam port project is not in favour of this project urging THA and Tanzania in general to liberalise the oil trade and adopt a regional approach to investments and use of facilities. Co-ordinated development of port and port related infrastructure projects of common interest within the region is desirable in order to improve the level of efficiency, quality of service and cost effectiveness. For the oil industry, the bank urges that it would be cheaper and economical for Tanzania and other countries in the region, to source oil from South Africa than to operate her own refinery.

During this period, the port of Tanga also received facelift with investments from ODA. Works carried included rehabilitation of quay No. 1, provision of 17, 000 square meters of container stacking areas and strengthening of operational maintenance and management capacity

2.5 Human Resources Development

Upon its establishment in 1977, THA inherited over 10,000 employees from the defunct East African Harbours Corporation (EAHC) and the East African cargo handling Services LTD (EACHS). It was obvious at this time that there were more workers in permanent employment than was needed. However, there were some shortcomings in respect to adequate management skills, supervisory skills and the level of education and experience of the workforce in general. Thus, the authority had to institute new policy directives that limited fresh employment, gradual reduction in the number of workers but at the same time focusing on adequate training for workers. Beginning 1990, the authority embarked on a passive adaptation approach on the labor force. Gradually the number of workers started to decrease through natural attrition, as fresh employment was restricted to skills and aptitudes not available in THA. By December 1992, the number of employees has decreased to 7,962 from 9,572 in 1990. However, this strategy was not producing faster results. Therefore, the authority had to resort to compulsory retirement by way of retrenchment of the excess staff to achieve an establishment of 5,321 employees. The retrenchment exercise started first with voluntary retirement, in December 1995 involving 1,034 workers. Compulsory job cuts followed in January 1996 for all stations and further staff retrenchments carried out in June and August 1997 for the ports of Tanga and Mtwara respectively claiming 2,826 workers. Thus, the total number of staff who has lost jobs so far is 3,860. Further staff reductions are planned to take place this year at the port of Dar es Salaam and at the head office. **Table No. 8** shows trend in number of employees since 1990. Other ports too have experienced similar trends as exhibited in **Appendix No. 6**.

Table No. 8**Staff Disposition 1990-1997**

Year	Station				Total
	HQ	DSM	Tanga	Mtwara	
January 1990	570	7,084	1,537	381	9,572
December 1990	544	5,975	1,246	349	8,114
December 1991	542	5,962	1,238	349	8,091
December 1992	525	5,871	1,219	347	7,962
December 1993	492	5,766	1,203	346	7,834
December 1994	482	5,340	909	327	7,058
December 1995	453	3,554	836	292	5,135
June 1996	439	3,348	834	248	4,869
June 1997	421	2,927	553	153	4,054

Source: THA Annual Reports and Accounts 1990-1997.

2.6 Problems and Constraints

2.6.1 Corporate Culture

The success of any organisation, commercial or otherwise and THA is no exception, is solely dependent on the willingness of the organisation's staff at all levels to work with commitment. A corporate culture which creates attitudes dedicated to the service to ones customers in a timely and cost efficient manner is essential for success. For THA however, employees' commitment and corporate culture is missing. The SLI report on the Dar Es salaam port development study 1994-2004, of October 1993, volume 3 port operations and terminal management reported on page 1-2 that:

“The consulting team met many individuals within the THA who were highly committed to the organisation, but the THA culture, influenced by its history as a parastatal, does not seem to allow these individuals to strongly influence the current operations. Individual managers in the port do not stress efficiency and cost effectiveness of their particular departments. Similarly, they do not feel responsible for resolving problems as they arise, nor are they held accountable for managing their respective departments in a manner which will provide a high standard of reliable services. The port labour force on the other hand has a low morale and is characterised by absenteeism, tardiness and low productivity”.

It is important therefore that management standards be improved by giving line managers authority to establish and enforce operating policy and procedures and be taught the basic principals of customer service to allow the port to provide a high standard of cost efficient services. On the labour force the organisation should implement policy towards reducing and casualizing the labour force.

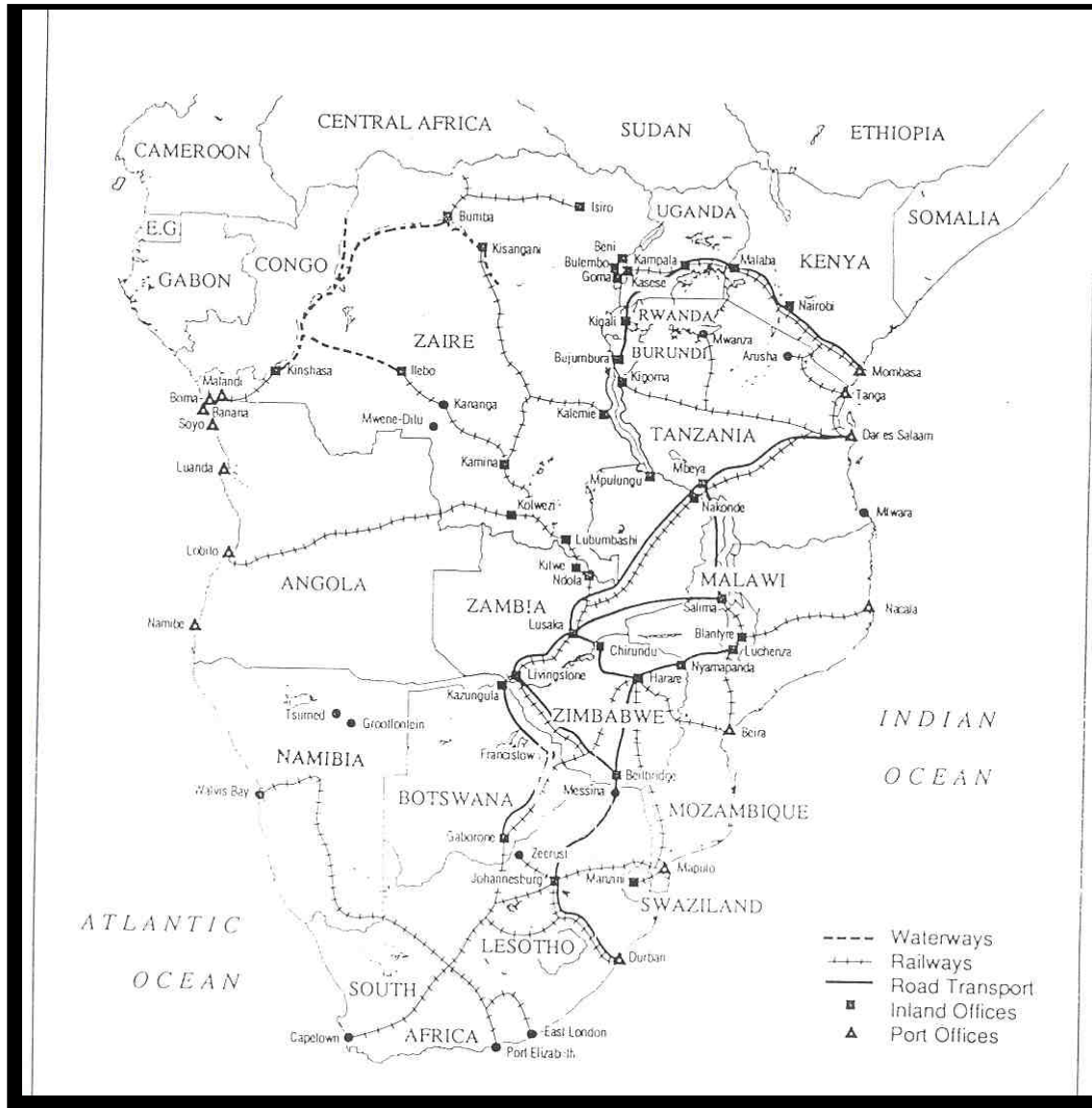
2.6.2 Competition

Of recent, competition between ports in Eastern and Southern Africa has increased and is increasingly becoming more severe. This has happened because now the port users i.e. shipping lines and shippers are now able to choose between ports since there are many ports serving the same hinterland. The major competitors to THA ports include Mombassa port in Kenya for the traffic to and from Uganda, Rwanda and to a less extent traffic for Burundi and DRC. The ports in Mozambique particularly Beira and Nacala are competing with Dar es Salaam for Zambia and Malawi traffic. This has become even more evident with the return to peace in Mozambique followed by the rehabilitation of the railway links, which were devastated by the civil war. Both Malawi and Zambia have relatively better rail and road connections to the ports than to Dar es Salaam port. The other major competitor is the port of Durban in South Africa, which seems to be getting a better deal due to

better inland transport links with Zambia, Malawi and DRC. Also relatively lower ocean freight rates compared to that of Dar Es salaam port works in favour of the port of Durban. An increased trading activity between South Africa with East and Central African countries has also contributed to increased competition within the region. On the other hand, competition between THA ports has been very rare probably because of the diverse differences in capacity but also because they serve different hinterlands and the institutional set up under THA, which discouraged competition. Hinterland connections for the ports along the Eastern and Southern Africa ports are shown in **Figure No. 3**

Figure No. 3

Hinterland Connections for Eastern and Southern Africa Ports.



2.6.3 Inadequate Capacity and Inefficiency of the Inland Transport System

The hinterland of the port of Dar es Salaam is accessible by both rail and road transport systems. However, both rail and roads are insufficient in terms of capacity i.e. the amount of goods they are able to move in a given period. The two railways, TAZARA and TRC do not have enough rolling stock and pulling power hence the low volume of goods they can carry. TRC lines are old and thus subjected to frequent breakdowns and accidents. The standard for most of the roads is very poor and is in urgent need of repair. The inefficiency of the land transport is a major contributing factor in increased cargo dwell times, which go beyond 30 days in some cases. It is therefore important to improve co-operation with customers and other service providers in the transport market. Initiatives taken by THA of working together with other service providers to improve customer services cost effectiveness and efficiency under the Transport Co-ordination Committee (TCC) need to be sustained.

2.6.4 Poor Growth

For some time now THA has witnessed a continued stagnation in traffic a situation, which has led to poor market growth. The hinterland of the port has for some time also not been generating sufficient traffic due mostly to its poor economic performance, which has in turn, resulted to decreased overseas trade. Still, even the little traffic that is generated is distributed through many competing ports now serving transit traffic. Further decline in traffic may lead to the port of Dar es Salaam being gradually relegated to feeder port. This should not be allowed to happen taking into consideration of the massive investment already made in the port. It is high time that THA adopted effective marketing strategies by defining the market and develops leadership operationally as well as strategically in the market.

2.6.5 Poor Productivity

As already mentioned earlier on, THA ports are characterised by poor productivity and inefficiency. Productivity levels have always been below target set by management, do not compare favourably with those of other ports in the region, and are below world averages. There are no signs for improved productivity and efficiency in THA in the near future. Low productivity is a constraint to the port competitiveness and for maintenance of market share. It is vital for THA ports to improve their productivity and efficiency levels even more in order to keep or regain market shares. Improvements need to be made in several aspects relating to management, supervision and employee attitudes.

Some aspects of the ports' inefficiencies and poor productivity are a result of the **cumbersome and long customs procedures**, and poor services of other port related service providers such as shipping agencies, freight forwarders, transport providers etc. Of great concern too is the inadequate provision and use of Information Technology including Management Information System (MIS). THA is lagging behind in the use of modern information technology such as computers to facilitate its operations activities thus the management of information including availability and dissemination is quite a problem and leaves a lot to be desired. On a more positive note however, the UNCTAD sponsored project on "Advanced Cargo Information System" which is in the process of being installed at Dar es Salaam port is expected to improve the information management in THA. It will also provide links to shipping as well as to land transport system. THA should continue to develop information systems and integrate them with shipping, shippers and other customers with the sole purpose of improving the flow of information and responses in all directions.

2.6.6 Over Employment

Another feature, which is worth noting in THA, is the number of workers it needs. Several studies done in THA have mentioned the aspect of **over employment**. THA has long recognised this problem and had initiated and actually started to implement measures towards reducing the labour force to required levels. After having undergone downsizing through natural attrition and also retrenchments, it would seem that the optimum number of employees required is yet to be reached hence further reductions in the number of staff are still imperative. Reductions in the number of staff will also assist in the aspect of checking the increasing trend in operational costs. After staff reductions, THA has to take measures aimed at broadening competence to improve utilisation of resources by instituting labour reforms that involve the entire organisation from management down to the ordinary workers.

2.6.7 Decision Making

Last but not least is the issue of bureaucracy and decision making both within THA and on issues requiring government approval. As per current practice, THA budgets entailing revenue and expenditure, training, capital development program need the approval of the government. So is the tariff review. Besides the government, the other supreme decision making body is the Board of Directors whose Chairman is appointed by the President while the members are appointed by the minister responsible for transport. The board meets at least six times in a year to deliberate on various issues of the authority. Almost every thing in THA has to get the blessing of the Board of Directors. The decision making process of the government and that of the board take a long time thus there is always a time lag and delay in effecting some of the important decisions. An example of this delay in decision making is with respect to the two positions of the Assistant Director Generals, which have remained vacant since 1994 to date. Probably there was no need to have these posts filled up

that is why the board has paid little attention on the matter. It would be of help to the organization if some of the responsibilities were decentralized.

2.7 Conclusion

This chapter explained in some detail on how the Tanzania Harbours Authority is organized as owner of infrastructure, superstructure and provider of all port services and labour in accordance with the act of parliament, which established the organization in 1997. Over the years THA has been struggling to provide the port customers the needed range of services quite satisfactorily. However, the changed shipping, port and market environment poses serious challenges to the organization, which have to be addressed to ensure its existence. The major problems, which THA is facing, are associated with its institutional framework, poor inland infrastructure facilities, changing business environment associated with increasing competition from neighbouring ports and poor corporate culture. The consequences of the above problems have manifested in decreased traffic volumes and market share, and low productivity. The solution to this is for an institutional reform and reorganization of the maritime sector in Tanzania.

CHAPTER THREE

3. Restructuring of The Public Sector in Tanzania

3.1 Background

Public owned organisations in Tanzania are a direct consequence of the country's policy of socialism and self-reliance, which was adopted in 1967. Under this policy it was declared that all major means of production should be under public ownership and that individuals are not allowed to accumulate wealth while the majority are living in poverty. Consequently Tanzania decided to nationalise all privately owned property, which was adjudged to, is of prime importance in the production process and equitable distribution of wealth at least in the context of Tanzania. Property, which was nationalised, included all land, big industries and trading companies, estates, banks, transportation companies etc.

Upon nationalisation, the government established State Owned Enterprises (SOEs) to run and manage the nationalised companies. The government extended its arm in the management of the public owned companies by appointing chairmen and members of the board of directors and top management. Often also the government was called upon to intervene and assist companies by injecting more working capital and provision of subsidies. State monopolies emerged and dominated the production and exchange of goods and services in the country. Until the early 1990's, 90% of the Tanzania economy was being run and controlled by the public sector. Thus for over 30 years the Tanzanians worked hard in support of state owned enterprises with high expectations. However, the anticipated achievements for faster economic development were not forthcoming. Instead the country's economy continued to

weaken but the government not realising the problem went on injecting more and more resources to the ailing parastatals with a view to revive them to no avail. Provision of subsidies and working capital could not improve effectiveness of state owned companies, as there was no incentive for the state monopolies to operate efficiently.

The problem most state enterprises centred on a weak capital base, weak management, operational inefficiencies, government interference and bureaucracy. This associated with their non-responsiveness to consumer demands turned out to be too much of a burden on the consumer and the taxpayer. The consumers could not get the goods and services they wanted and at reasonable price. The taxpayer was being forced to finance loss making and inefficient public companies. Worst of all the country's resources were being used inefficiently and the economy was suffering. Inflation kept on rising and the standards of living were worsening. The goal of achieving economic development under the banner of socialism became a distant dream. Now it has become apparent clear that the economic management in the country needed to be overhauled. As the President of the United Republic of Tanzania Mr Benjamin Mkapa, during a speech when opening the Tanzania ambassadors' conference on 19th April 1999 put it:

“By the early 1980s Tanzania had a very large public sector covering a wide spectrum of national life. But it was a public sector that did not create a surplus to sustain itself in terms of new technology, new knowledge and new machinery, let alone to finance sustainment of the countrywide network of economic and social infrastructure. If the public sector could not deliver, we had to try the private sector”.

In Tanzania and in many other parts of the developing economies, a change to market economy was being spearheaded by the World Bank under the various “Structural Adjustment Programmes” introduced since the early 1980s. Under the programme, the economy gained modest achievements hence the government

embarked on the “Economic Recovery Programme (ERP)” in 1986. The ERP was initially aimed at paving the road for economic recovery by laying a firm ground for sustained long-term development. Among the major objectives of the programme was to accelerate and broaden the reform process which was introduced in the economy under the “Structural Adjustment Programme” supported by the World bank and IMF financing packages. Major aspects of the programme are liberalisation and deregulation of a hitherto closely controlled economy, transfer of the leading role in economic development from the public to the private sector, and achieving macro economic stability.

Thus in 1992, Parliament passed the Public Corporations Act, and its amendments in 1993 opening up doors for private sector participation in the economic development of the country. Further development in this regard was in the establishment of the Presidential Parastatal Sector Reform Commission (PSRC) in 1993 under the Public Corporations Act (amendments) and given the following powers:

- (a) To specify corporations for restructuring;
- (b) To execute detailed plans for the restructuring of specified corporations.

3.2 Restructuring and Privatisation

Before discussing the objectives of the restructuring programme in Tanzania, it is important to highlight the underlying concepts in as far as they apply to the transport sector in the country. Restructuring is defined (SMAK Kaombwe, ARC 1998) as:

“The composite of all actively taken organisational changes aimed at transforming the relationships within the enterprise, and between it and its environment, in order to give it a new focus, character, scope, goals and purpose for existing.”

The main thrust for the restructuring programme is to introduce changes in an enterprise concerned so as to make it to provide services in a more competitive, efficient and cost effective manner by changing the way it is owned, controlled and operated. Restructuring encompasses such changes as management structure, mission (strategic orientation), capital structure, legal form and size and composition of the workforce etc.

As far as Tanzania is concerned, restructuring of the dominant public sector means embracing more of private sector participation in economic activities more so in running commercial activities through commercialisation and privatisation. Commercialisation will bring about the condition of economic viability for the enterprise by requiring it to operate as a profit making commercial undertaking without depending on government subvention. Privatisation on the other hand aims at effective participation of the private sector achieved by transferring full or partial transfer of the development responsibilities, facilities and operating functions (ownership, management and operating functions) from the public enterprises to private sector developers, operators and service organisations. The main motivation in privatisation is improved efficiency and effectiveness and greater economic growth realised by enhanced competition as market forces in the production and exchange of goods and services come into play.

3.3 Objectives of the Restructuring Programme.

The public sector in Tanzania has been dominating the economy for over 3 decades. It has been explained that the public sector could no longer deliver the goods and services. It could no longer pioneer the economic development of the country. And given the governments limited capability to finance economic development, it was more than logical for taking restructuring measures in the management of the economy. At corporate level, however, the restructuring measures are not only tailored to improving the operations and financial performance but the individual

firms are to have the required institutional framework, financial, human resources and technological resources that will enable it to be competitive, improve service offering, attract foreign investment and technology.

In undertaking the restructuring programme, detailed objectives have been formulated. These have been discussed at various levels for smooth implementation. In summary the objectives of privatisation, which the government is pursuing, are:

- (a) To improve the operational efficiency of public enterprises and their contribution to the economy;
- (b) To reduce the burden of loss making public enterprises on the government budget;
- (c) To expand the role of private sector in the economy permitting the government to concentrate public resources on its role of provider of basic public services such as education, health;
- (d) To create conditions for economy to operate governed by market forces;
- (e) To stimulate and encourage local participation in the ownership and management of business;
- (f) To promote the development of capital markets;
- (g) To secure enhanced access to foreign investments, technology and markets.

Within the port industry the actions to be undertaken during the implementation of restructuring programme are:

- (a) Encourage economic liberalisation of port operations through ;
 - institutional restructuring of the state owned port operations,
 - Reducing the role of the government in port operations,
 - Limiting government subsidisation of port operations.
- (b) Enhance competition in port operations by encouraging efficient port land use and wide spread and diverse participation in the provision and management of port infrastructure and commercial activities in or in relation to ports;

- (c) Secure public interest by strengthening the capacity of the government to promote;
- port safety and protect the safety of lives , property and navigation;
 - competition between ports and within ports and between services providers,
 - retaining public ownership of port land and port waters,
 - Protecting the environment.
- (d) Facilitate regional development and co-operation by encouraging the complementary operation of the regional ports as hub and feeder ports and sea ports hinterland optimisation.

The objectives of the reform programme are better summarised by the President of the United Republic of Tanzania Mr. Benjamin Mkapa, who, speaking to the members of the conference of Tanzania Financial Institutions on December 1, 1995 said:

“We recognise that the government has no business on the eve of the 21st century to be in business. The gradual withdrawal of government from production and commercial activities will continue and the private sector will be supported to enable it take over the activities. By withdrawing from direct production activities, the government will have more resources with which to strengthen essential social services, economic infrastructure; human capital development and performance of the traditional roles of state in particular the maintenance of law and order. The reform of the public sector will continue to be a key element in our economic policies. The objectives of these reform include to improve efficiency, increase capacity utilisation, offer new employment opportunities, enhance production, bring in new skills, and technology, open up foreign markets for our products, increase government revenue through taxes and dividends and generally cut public losses inquired through the parastatal sector. But it is also our goal to promote the widest

possible, and transparent, participation by our people in the ownership and management of the restructured economic activities of the state”.

3.4 Parastatal Reform Programme and the Role of the Presidential Parastatal Sector Reform Commission (PSRC).

3.4.1 Establishment of the Presidential Parastatal Sector Reform Commission (PSRC).

3.4.1.1 Establishment and Functions

The public corporations act of 1992 was amended in 1993 to provide for the institutional framework for privatisation. It also facilitated the establishment of the Presidential Parastatal Sector Reform Commission (PSRC). The PSRC is an autonomous organ of the government, which is charged with the task of managing the privatisation process in the country. The specific tasks of the PSRC are:

- (a) To prepare and maintain an up to date list of SOEs and strategies for privatisation of specified corporations;
- (b) Formulate and execute detailed plans for the restructuring of specified corporations;
- (c) Supervise, monitor and enforce the restructuring procedures and agreements;
- (d) Make recommendations on which corporations to be specified.

3.4.1.2 Divestiture Alternatives

The divestiture alternatives under consideration by the PSRC in parastatal reform are:

- (a) Sale of all or most shares to joint venture partners;
- (b) Sale of assets;

- (c) Assets lease;
- (d) Performance contract for some companies while they remain in the public sector;
- (e) Liquidation for firms with no prospects or have unmanageable debts;
- (f) Transfer to the Loan and advances realisation Trust;
- (g) Commercialisation- given full autonomy and required to operate on commercial principals;
- (h) Restructuring e.g. to perform regulatory functions.

3.4.2 Progress in the Implementation of the Reform Programme

It is now sixth years since the establishment of the PSRC and commencement of the privatisation process. Over 68 per cent of all our public enterprises have been privatised, or handed over to the Loans and Advances Realisation Trust (LART). Of the 395 public enterprises that were lined up for divestiture through the PSRC, 132 were divested through sales agreements of which 57 were industries and other commercial entities, 35 were in agriculture, 16 in natural resources and tourism, and 24 in other sectors.

A further 145 enterprises are at different stages of privatisation. In this group are large public utilities, infrastructure enterprises, as well as financial institutions including the Tanzania harbours Authority (THA). The privatisation of public utilities, financial institutions, and infrastructure enterprises have to be done much more carefully in view of their sensitivity, size, complexity of operations, as well as their critical importance to the rest of the economy and the welfare of the people. In addition, attitudes have to be changed gradually from the socialist mind-set against privatisation of public utilities, banks and financial institutions, and the perceived cost-free availability of some of the services they offered. Studies have to be made, and consultancy services provided, in determining the best options for privatisation,

and in putting in place the requisite regulatory framework, which did not exist before, for private sector participation.

Progress in divestiture of SOEs is presented in **Appendix 3**.

3.4.3 Problems Being Encountered in the Privatisation Process

3.4.3.1 PSRC Tenure

The tenure of office for the PSRC and the time frame set for privatisation programme is 5 years commencing in 1993. It was anticipated that most of the work of parastatal reform would have been concluded within the set period. By 1998, however, the time set has expired and there stills remained more work to be done. Major utility companies such as power, telecommunications, ports, water were still in the initial stages of privatisation. The government was however still considering request for extension of tenure for the PSRC. The slow pace of privatisation can be attributed to bureaucratic decisions by the government on either policy issues or approval of divestiture strategies of particular parastatals.

3.4.3.2 Privatisation Programme Time Plan

The privatisation programme in Tanzania is behind schedule and its pace declined substantially especially in 1996. It should be noted that the time limit has expired at a time when the commission has just embarked on the privatisation of utilities, which are more complex and sensitive. Occasional delays in concluding the divestiture of some public enterprises has led to asset stripping and siphoning of cash by the employees who are uncertain of their future employment.

3.4.3.3 Shortage of Funding and Manpower

Shortage of financial and other resources such as qualified and experienced manpower to deal with the diversified areas of public enterprises within the given period. PSRC has therefore been depending on external finance and expertise (Consultancy) for carrying out studies and payment for retrenchment of employees.

3.4.3.4 Buyers Financial Constraints

Another constraint is the low financial capability of some of the buyers, especially indigenous Tanzanians. Thus although the government would have wished to divest public interests in our enterprises to Tanzanians, it has not been possible due to the fact that few have the capacity in terms of capital, skills, technology, and knowledge of markets to be able to buy and rehabilitate the enterprises to the level of being competitive in a global economy. The Capital market is yet to take shape. The slow evolution of a viable capital market mechanism has made mobilisation of investment funds locally extremely difficult thus slowing down the process of privatisation.

3.4.3.5 Labour Implications

The initial phase has resulted in massive loss of jobs in almost all sectors of the economy. In some of the cases workers who have been made redundant have not been fairly compensated and/or often associated with undue delays in effecting payments. This has affected the morale of the workers greatly due to uncertainty of future employment. The problem is aggregated further by lack of a common formula for computation of terminal benefits. Each SOE had its own terms and conditions of service on which terminal benefits and retrenchment packages are based. Employees of different public enterprises are therefore awarded different packages ranging from generous to nothing.

3.4.3.6 Transparency

Another obstacle is the question of openness and transparency in the divestiture process, as well as whether workers need to be direct participants in the privatisation process. There has been a heightened awareness of workers' rights to participate. But this labour heightened awareness has already led to several court cases and injunctions. Some policy makers and the general public are still questioning the rationale and benefits of carrying out wholesale privatisation of state assets. There still exists entrenched notion of public ownership of assets among many Tanzanians.

3.4.3.7 Determining the Economic Value of the Assets:

It would appear that the sale of assets during privatisation is under a buyers market such that it is the buyers who hold and control the purse. In most of the sales that have taken place, the economic value of the assets is overruled by what the buyers offer meaning that whatever the Government might have spent in civil works, infrastructure developments, etc., it has been considered as "**sunk costs**". As a result, the divestiture concluded so far has achieved less than the assets value of the enterprises. As a matter of fact the bidding process has been saturated with speculative bidders who present very high bids but ultimately have no capacity to meet their undertakings in the tenders. The result has caused undue delays in awarding tenders to deserving bidders.

3.4.3.8 Lack of Sustainability of Operations

Some of the divested public enterprises particularly in the manufacturing sector, have discontinued production or due to some of the problems stated above while some others have changed the lines of business from manufacturing to trading or logistics.

3.5 Setting the Ground for Undertaking Reforms in the Port Industry.

3.5.1 Macro Economic Measures

For smooth implementation of the programme, the government has been working hard and is committed to creating a conducive climate for private sector participation. A stable, predictable and conducive macro-economic framework has been put in place. Inflation in the economy, which has been as high as 40% during the early 90's, has been reduced to below 10%, relaxing foreign exchange controls have been relaxed and the foreign exchange market liberalised. Other measures include management of the interest rates through liberalisation of the banking system, improved tax administration following the establishment of the Tanzania Revenue Authority and the introduction of the Value Added Tax (VAT) system. Institutional reforms have made it possible for private banks and other financial institutions to operate in Tanzania.

3.5.2 Investment Promotion

In 1996, the Government thoroughly reviewed its Investment Promotion Policy of 1990, and subsequently approved a new policy that emphasises among other things, the following:

- (a) The encouragement of inflows of external resources to complement national efforts;
- (b) Encouragement and facilitation of the adoption of new technologies in activities that especially have a direct bearing on productivity, quality and increased competitiveness;
- (c) Enhancement of a transparent legal framework that facilitates the promotion and protection of all investments;
- (d) Deregulation of the investment approval process;

- (e) Re-definition of the role of the private sector, putting it in a more central role;
- (f) Determination of a balance between necessary administrative controls and market forces as an efficient mechanism of allocating resources;

A new law on investment promotion and protection was enacted in 1997, and the Tanzania Investment Centre was established to provide for a more effective, efficient and truly one-stop centre for foreign investors. The new Centre is tasked to remove all remaining and unnecessary controls and bureaucratic hurdles that impede the speed at which investment decisions are made. Further development is with respect to the establishment of Commercial Court to hasten the hearing and disposition of commercial disputes. Investments in Tanzania are now also fully protected against arbitrary nationalisation and expropriation. Tanzania has also joined the International Centre for the Settlement of Investment Disputes, and Multilateral Investment Guarantee Agency (MIGA).

3.5.3 Implementation Strategies

In the transport sector, implementation of the above measures was guided by the following strategies:

- (a) Investment strategy that gives priority to maintenance, rehabilitation and upgrading of facilities rather than on new construction;
- (b) Resource mobilisation strategy targeting on self financing of the transport sector public organisations in ports, railways, civil aviation and road transport services and also ensuring full cost recovery of road maintenance expenditures from user charges for the road infrastructure;
- (c) Institutional improvements strategy aiming to enhance efficiency of resource use through increasing managerial autonomy and accountability and personal skills and incentives;

- (d) Market liberalisation strategy aimed at increasing private sector participation in rehabilitation and maintenance of infrastructures and operation of transport services and at achieving complete deregulation of tariffs in the sector.

3.6 Tanzania Transport Sector Current Status and Divestiture Alternatives.

3.6.1 Composition of the Transport Sector

The transport sector in Tanzania comprises of four modes of transport namely road, railways, air and maritime. The road transport is the most widely used and is mainly operated by the private sector. On the other hand the maritime transport is instrumental as far as the carriage of international trade is concerned. Overall responsibility rests with the Ministry of Communications and Transport (MCT). However, responsibility over the road infrastructure rests with the Ministry of Works (MOW) and the Prime Minister's Office (PMO). The MOW looks after Trunk and Regional roads while the PMO is responsible for urban, district and rural roads. There are two railway systems, one under Tanzania Railways Corporation (TRC) and the other under the Tanzania Zambia Railway Authority (TAZARA). Seaports are under the Tanzania Harbours Authority (THA) whereas the Tanzania Railways Corporation operate inland waterways in Lakes Tanganyika, Victoria and Nyasa. The country has one national air line, Air Tanzania Corporation. The air mode also consists of three international airports at Dar es Salaam, Kilimanjaro and Mwanza.

3.6.2 Maritime Transport Sector

The Tanzania Harbours Authority operates three major ports of Dar es Salaam, Tanga and Mtwara. In 1994, THA in corroboration with the World Bank concluded a major development study for the port of Dar es Salaam. The study charted a 10 years

plan, which focused in improving physical, commercial, operational and financial efficiency of the port. This was followed by the commercialisation study in 1996, which looked into the ways of making the organisation to be more commercially oriented as well as identifying areas for privatisation. In line with government resolve to transform THA into a landlord status and giving to private operators all the operational activities of the port, the study recommended establishment of business units for a concession to private sector developers. The first candidate for privatisation is the container terminal business unit, which is due to be concessioned towards the end of 1999. Meanwhile, a study on the concession of the Container Terminal explaining its status and recommended privatisation options has just been concluded. Follows up studies are to be conducted to enable THA to conclude concession agreements of the remaining business units.

3.6.3 Railways

Tanzania Railways Corporation (TRC) operates the main railway line from Dar es Salaam to Kigoma is the main link to Burundi, Rwanda and eastern parts of the Democratic Republic of Congo. There is also a branch at Tabora, which links to Uganda through Mwanza. TRC also have lines connecting the agricultural rich regions of Tanga, Kilimanjaro and Arusha. TRC also operates Inland Waterways Services in lakes Victoria connecting Tanzania, Kenya and Uganda, in Lake Tanganyika, which provide services for DRC, BURUNDI, Rwanda and Zambia and in Lake Nyasa with services to Malawi. Beginning 1997, TRC entered into a performance contract with the government, which gave it autonomy for it to operate on commercial principals. A restructuring programme was commenced implementation in 1991 for commercial viability and rehabilitation of infrastructure. Strategy for TRC is to privatise the marine services through sale of shares, which were not doing well operationally and concession out the operational activities.

The **Tanzania Zambia Railway Authority (TAZARA)** on the other hand is under joint ownership of the governments of Tanzania and Zambia. The privatisation is not being managed by PSRC but through the council of Ministers. The two governments have granted the corporation autonomy to operate commercially. Discussions are going on with Zambia Railways and South African Railways towards enhancing greater co-operation both commercially and technically for possible joint ventures. The strategy for the TAZARA is deregulation and sale of non- core assets (Hostels, Quarry).

3.6.4 Air Transport

In the air transport sector, privatisation involves Air Tanzania Corporation (ATC) and the three international airports of Dar es Salaam, Kilimanjaro and Mwanza currently under the Directorate of Civil Aviation (DCA). In 1992 the government liberalised the domestic air transport services thus opening up doors for private operators, which hitherto was the monopoly of ATC. Since then the number of private air transport operators has been increasing year after year resulting in competition and improved services. Privatisation strategy for ATC is sale of shares to private operators. Meanwhile, ATC's subsidiary, the Dar es Salaam Airport Cargo Handling Company (DAHACO) has been privatised by sale of shares to the South African Airlines. During 1995, a company by the name of African Joint Air Service (AJAS) was formed under joint venture between Uganda, South Africa and Tanzania to undertake international air transport services.

The divestiture programme being implemented in the airports started with the privatisation process for the Kilimanjaro International Airport (KIA) on a pilot basis. A concession agreement with a newly formed company namely Kilimanjaro Air Port Development Company has been signed. The government has retained 24% of the shares and the remaining shares are to be given to the private sector.

3.6.5 Road Transport

In the road transport sector, private operators control both freight and passenger services with more than 90% of the market share. Private operators have also taken advantage of the ongoing reforms to increasingly become involved. Government involvement in this area has been through the National Transport Company (NTC), which was established to provide transport services where private sector participation was lacking or inadequate. Thus the government established Regional Transport Companies (RETCOs) in 10 regions and the Usafiri Dar es Salaam (UDA) to provide urban transport services in Dar es Salaam under the NTC. Privatisation strategy for UDA is to form joint venture. The privatisation of the RETCOs through sale of shares currently in progress will put almost the entire freight transport market in private hands. As for the roads sector, private participation is through semi-autonomous agencies that are to be created under the umbrella of TANROADS. These will be responsible for the management of operational functions including the administration of the road fund to be used solely for repairing and maintenance of trunk roads.

3.7 Conclusion

For quite some time now, provision of transport infrastructure and services has been the domain of the public sector. However, as has been explained in this chapter, it would seem that there is emerging a shift for the public sector from investing in infrastructure partly due to changed priorities and also lack of funds. But the private sector has the money and is looking for attractive opportunities for investment. There is also considerable pressure from the industry for ports to be more efficient in terms of service offering, costs, prices, new services etc. Ports are also experiencing increased competition in the context of globalisation following more countries becoming aware of the benefits of free trade whereby more and more countries are now opening their economies to the world markets and removing tariff and non tariff

barriers to trade. Through global investments developing economies stand to benefit due to their comparative advantage in terms of low labour costs and natural endowments that can be utilised to produce goods and services that can compete in the world market.

The problem now, however, is how to transfer the ownership from the public to private and continue to command the investments that have been made for a very long period from tax payers' money and giving it to private at a low price. What is the fair price to the investment and how do we go controlling a private monopoly that will emerge out of the privatisation. None the less, privatisation of the port industry should go hand in hand with privatisation in other related sectors particularly railways, road services, multi-modal transport operators, etc.

CHAPTER FOUR

4. Consideration of the Advantages and Disadvantages of Alternative Reform Methods for Tanzania Harbours Authority

4.1 Introduction.

The chapter discusses the roles that the government and the private sector should play in providing more efficient port services. This involves determination of the areas in which competitive market conditions can work and those that require public action. These parameters provide institutional options that allow governments, public sector agencies and the private sector groups to assume responsibility for different aspects of service provision. The reforms place responsibilities for the ownership, development, operation and provision of labour based on the following criteria:

- (a) Those which focus on the enhanced participation of the private sector i.e.:
 - Public ownership but with private responsibility for all operation and for financial risk;
 - Private ownership and operation;
- (b) Those which aim at improving market relations and enhanced commercial orientation of the public enterprise i.e. Public ownership and operation through a public enterprise or government department. The port authority has to undergo organisational restructuring (Corporatisation);
- (c) Community and user provision which considers issues that neither commercialisation nor competition alone can address. These include issues of the environment, distribution equity and the need for co-ordination of investments.

4.2 Transforming THA From Service to Landlord Port Authority

For THA the reforms aims at establishing a partnership with the private sector in relation to roles as **owner, developer, operator of ports and provider of labour**. This means transforming THA from its current status as a **service port** to **landlord status**. This is necessary for THA to be able to solve the existing problems and constraints and be able to cope with the increased investments requirements, competition, efficiency and cost effectiveness. Due to fiscal constraints in most developing countries, there is considerable pressure for ports to look for additional sources of financing something that cannot be realised under existing arrangements.

In **Landlord ports**, the private sector becomes more and more involved in providing port services in partnership with the public sector. The port authority is responsible for the provision of infrastructure while the private sector is responsible for provision of superstructure and labour. To perform these functions, the port authority owns, develops and maintains the infrastructure (including land) which is leased out to private companies. The private companies provide port services such as stevedoring, warehousing, distribution centres, pilotage, industry, bunkering etc. labour is contracted out by private stevedoring companies. Most ports are now moving from service ports to landlord port status. Examples of landlord ports include Rotterdam in the Netherlands, Miami in USA and Antwerp in Belgium.

The business units concept is beneficial to THA in that the individual business units become more aware of what their costs and revenues are, and of the actions they need to take to service their customers more effectively. The units can also develop their own organisational structures suited to the needs of their own market sector and the personalities of the people running them. This arrangement will also enable THA to proceed with reforms at different paces covering different parts of the business and progress gradually, trying out changes on one part of the business before you roll them out to others.

In between service port and landlord ports are the so-called **Tool Ports**. Tool ports have features of both service ports and landlord ports except for labour, which is provided by the private sector. In a tool port the port authority provides infrastructure and at times also some superstructure which it leases to private operators. The private sector on the other hand provides labour, but at times can be required also to provide additional cargo-handling equipment. Operating tool ports include Aarhus in Denmark, Le-Havre in France.

Most ports in developing countries are service ports. This has been historical as countries viewed ports to be catalysts for overall economic development. Hence the main objective has been to provide service to the economy and create employment. Commercial operation was regarded as secondary. In recent years however, ports have increasingly embraced private capital of which the main objective is profit hence their being required to operate on commercial viability criteria.

In addressing the inefficiencies of port services governments around the world have applied three grand strategies to improve port performance. These strategies are *deregulation/liberalisation, commercialisation, privatisation and corporatisation*.

4.3 Deregulation/ Liberalisation

The active involvement of the private sector in port operations is dependent on the existence of an ideal and attractive market environment. The ideal environment will be created through deregulation and liberalisation measures. This entails the unbundling of the monopolies by the relaxation of formerly rigid or constraining degrees of economic regulation thereby making market response and entry free and or providing operators greater flexibility to invest, alter operations and services and fix and negotiate tariffs.

The objective of deregulation and liberalisation policies is to enhance performance by creating competition in the market. Deregulation introduces a public organisation to competition in certain port activities previously reserved to statutory monopoly by permitting the private sector to provide port services to common users and thereby competing with the status quo public organisation providing the same services. This can be achieved by:

- (a) Having rules and regulations that are potentially attractive to the private sector investors and developers of new operations and services and by allowing them to fix and negotiate tariffs;
- (b) The elimination or reduction of restrictive rules and regulations in order to liberalise the market and promote efficiency without necessarily altering the mission and objectives of the port.

Economies and ports which undertake deregulation and liberalisation measures are set to realise the following advantages:

- (a) Restoration of competition to a market that is distorted by excessive regulations i.e. remove regulations that restrict, limit and prohibit competition by controlling entry, exit, prices;
- (b) Instils flexibility in the market by restoring efficiency, freedom to hire labour negotiate salaries and free exit and entry into the mark;
- (c) Cost reduction due to reduced bureaucracy;
- (d) Elimination of unwanted distortions due to cross subsidisation;
- (e) Improves financial viability hence makes it possible to attract investors;
- (f) Feasible price setting closer to the social optimum due to less (over) regulation.

On the negative side deregulation should be carefully implemented in a market of limited competition as the deregulation of tariffs may be harmful to customers. State owned enterprises are unable to compete on an equal footing with private sector companies permitted to provide third party services because they are still constrained

in terms of technology, restrictive work practices and being required to serve as employment centres. Also deregulation of employment may have impact on port workers leading to changes in employee attitudes, layoffs etc. So it is important for ports to continue negotiations with the unions for effective deregulation.

For Tanzania and ports in particular, deregulation and liberalisation measures are necessary because they represent a shift in decision making from the centre (government) to the private sector for both operational, market and investments aspects. Indeed these are important steps to make since the private sector is known for being fast and commercially sensitive. For the private sector to make full use of its allocative efficiency and make profit for the economy, it must operate in a competitive environment.

4.4 Commercialisation

This strategy involves the changing public port authorities into commercially viable enterprises. In this aspect the public authority management is given the autonomy and accountability for the decisions and its performance. To attain commercial viability, structural and management changes are introduced in the public port or it is contracted out.

The primary objective of commercialisation is to make an enterprise to operate within the discipline of the market so as to lead to more efficient services greater flexibility and less dependence on government support. Most scholars argue that commercialisation is a stepping stone towards privatisation to enable the port to acquire management experience towards more private sector involvement. It is also an important step for safeguarding the acquired prerogatives and vested interests of the public sector.

Commercialisation of state enterprises addresses three major issues:

- (a) Limiting the role of the government as provider of port services sometimes in direct competition with private sector;
- (b) Streamlining the decision making process with a view to making it cost effective and introduce accountability;
- (c) Making the port responsible to port users by providing services according to market demands, abiding to market discipline and business principals.

Advantages

There are several advantages for a public organisation to undergo commercialisation:

- (a) Enables the introduction of cost /profit centres focused on efficient use of resources (inputs vis-à-vis outputs);
- (b) Makes the public enterprise to stand on its own feet and be accountable for what it does;
- (c) Becoming more responsive to user needs;
- (d) Introduces more flexibility in the organisation;
- (e) There is less government control but is able to retain public financing for major capital projects;
- (f) There is more management freedom in making decisions especially in aspects of tariffs, investments and employment.

Disadvantages

The major problem with commercialisation is that not enough autonomy is usually granted to port management hence limited flexibility to pursue strategic goals especially those related to foreign business or investment opportunities, gain access to additional capital to pursue corporate objectives. Commercialisation also does not get rid of bureaucratic constraints, as countries are reluctant to relinquish stringent control over ports because of traditional importance of ports to the country's economy, employment etc. Again, it is difficult to achieve commercialisation

objectives in the absence of competition. Commercialisation is a slow process and its effectiveness depends on the realisation of four basic changes:

- (a) Gradual introduction of more commercial policies in the areas of tariffs, marketing and customer servicing;
- (b) Changes in the size and structure of the labour force, renegotiations of its terms and conditions of employment. This can not be easily realised in Tanzania given the existing rigid labour laws;
- (c) Changes in attitudes and cultures in line to that of private sector by the management and staff. Unfortunately this has been a long-standing problem in THA and other state owned companies;
- (d) Redefinition of the port's legal status and relationships with the government.

Given the above constraints, commercialisation cannot be an effective choice for THA.

4.5 Management Contract

A management contract is an arrangement whereby the private sector management, skills and or technology are provided under a contract to a state owned enterprise for an agreed period of time and compensation. The contractor assumes responsibility for compensation with full management control and authority to manage. The financial risk remains with the port authority. Under a management contract, the port authority retains ownership of the assets and is responsible for provision of further capital.

The objective of having a Management Contract is to enhance the efficiency and effective use of state assets in mostly service ports where performance of the port authority as an operator has not been satisfactory. Management contracts are often used, as temporary measures to gear the state owned enterprise to an acceptable level

of operations and profitability before divestment. During the period of the contract the assets are improved to become more attractive and hence able to command a better price from the private sector investors.

The **advantages** of a management contract include:

- (a) Use of specified skills which are not readily available within the organisation or locally;
- (b) Use of specified skills that are not required full time thus allowing flexibility in response to changes in demand or availability of resources;
- (c) Brings capital savings in equipment, investment;
- (d) Introduces a port to new and better business cultures and ethics;
- (e) Raises efficiency by increasing specialisation;
- (f) Creates a yard stick for comparison of costs;
- (g) Permits greater exploitation of economies of scale for processes or activities;
- (h) By bringing in foreign management it is possible to establish a network of international contacts that makes it easier to mobilise funds and promote the port.

Disadvantages

It should be noted however that management expertise is lacking in most developing countries making it necessary to source them from outside. This is an expensive undertaking bearing in mind that the countries have to utilise their scarce foreign exchange resources to pay for the fees, salaries and benefits for the management team. The huge salary difference between the expatriate staff and the local creates dissatisfaction on the part of the local staff making them unwilling to support their counterparts. Management contracts also require that investments need to be made during the initial stage of the contract to prepare the port to perform to the agreed thresholds. This requirement is often not met in time resulting in contract failure as it happened in Mombassa Kenya in 1997. (The port of Mombassa had commissioned

the port of Felixstowe England to operate the container terminal in the form of management contract. The contract was terminated because the government could not guarantee the required autonomy and did not act fast enough to provide financing for the purchase of equipment and rehabilitation of the terminal). THA has enough experienced and trained management. However, THA's biggest problem is that the government has not granted the management enough autonomy to demonstrate their capabilities.

4.6 Privatisation

Privatisation involves the transfer of ownership of all or certain parts of a port's land infrastructure and or equipment from the public to the private sector. This strategy is normally a follow up stage after commercialisation, management contract, or deregulation/liberalisation strategies have not been successful or have only achieved modest results. The objective of privatisation is achieving efficiency and effectiveness and greater economic growth by encouraging competition and emphasising more on the role of market forces in economic activities. Private sector participation in port takes various forms. The main options are:

4.6.1 Sale of Assets

This involves the transfer of ownership of infrastructure, superstructure and equipment from the public to the private investor by:

- (a) Sale of shares to the general public (Public issue or offer) quoted in the stock exchange. Arrangements can be made for employees and small investors to be given preference. For a big corporation like THA this option is not favourable because the financial institutions are not well developed as a source of capital. Also the stock exchange where people can buy and sell shares has just been established and there is lack of greater public

awareness of investment risks coupled with limited communication system of financial information;

- (b) Sale of assets (not shares) through competitive tender and is open to any company or consortia but sale is made to one bidder. Employees can participate through MEBO typically funded by institutional equity and debt;
- (c) Acquisition of the port by the existing management team (excluding other employees) through a **Management Buy Out**. Acquisition by an external management team is also possible though **Management Buy In**;
- (d) Negotiated sale with a single buyer who may be a trade buyer or MEBO. **MEBO** arrangements have an advantage that it provides strong financial incentives to management and employees and promotes good industrial relations. But it has not been popular in Tanzania on three aspects. First existing management is usually constrained in terms of commercial experience hence its effectiveness is mostly doubtful. Secondly it might be difficult for the workers to have the financial resources to enable them to participate in the purchase. Thirdly the decision to sell to company employees may be viewed by the rest of the public as unfair for them not to take part.

4.6.2 Concessions (BOT, Leases)

Concessions entail arrangements that provide the right to finance, build and operate a facility of the port or some equipment for public use. The advantage of a concession is that it relieves the finances of the port authority in that it is the concessionaire who pre-finances the whole operation, operates, and maintains the facilities and recovers its investments through tariffs. It also permits the port authority to attract capital especially foreign without long term control over its vital port facilities. Besides the positive aspects of concessions, care should be taken to ensure that the concessionaire does not hold a dominant position, there is transparency and that financing of new investments and maintenance is sustained.

Concessions are of two basic types i.e. **Lease** arrangements and **Build Operate Transfer (BOT)** schemes.

Lease agreement involves the right to use an existing asset for an agreed period of time in return for a payment or series of payments by the lessee to the port authority. The lessee does not invest but simply benefits from the use of the port authority's investments. The leaseholder however, assumes full responsibility and commercial risks of operations.

Under the **BOT** schemes, the private sector builds and operates the new port facilities for an agreed period say 25 years, with ownership transferring to the state there after. In this arrangement the port authority exercises regulatory functions to ensure the healthy growth of the port through proper performance standards, safety and pricing policies. Due to the investment requirements to be made by the private sector, most BOT agreements are of long term nature. The problem for THA is that local private investment capability is lacking meaning that this scheme can only benefit foreigners who might have other priorities.

4.6.3 Joint Ventures

This involves the setting up, by two or more investors, of a jointly owned independent organisation. Joint ventures have the strong advantage in that parties are able to share the risks expressed in terms of costs and profits. It is also the best way in which transfer of technology and expertise is built in. Local participation can be assured through joint ventures. However, greater care is needed while selecting a competent and committed joint venture partners and negotiates acceptable terms.

4.7 Corporatisation

This strategy involves the establishment of a company owned by the government under the Corporations Act to perform the business of providing port services. Corporatisation, which is normally a prelude to privatisation, involves legal changes to grant the port authority and operators administrative and financial autonomy from the central government. The ownership of the company can be a mixed one in which private interests are represented with the presence of the government or another public entity such as development bank. The biggest advantage for this kind of arrangement is that the port attains greater freedom in port operations by having full autonomy while the government keeps control of the port. The risks are minimised by sharing of the investment costs.

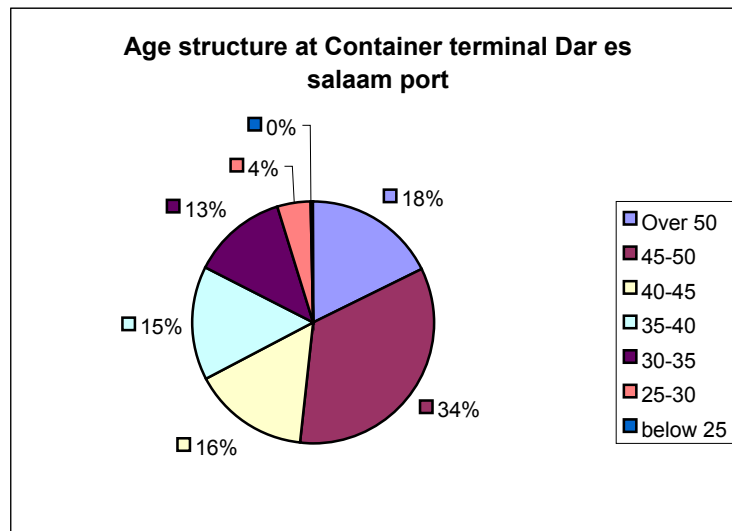
4.8 Labour Reforms

In a service port labour is usually provided by the port authority. When this has changed the relations in respect to employment of the workers, structure and remuneration also changes. Thus in the landlord and tool ports, the labour supply becomes private and is contracted out by private stevedoring companies. In Tanzania, the need to undertake labour reforms in the port industry is due to:

- (a) over employment which is a result of policy objectives of creating employment which were pursued by most service ports;
- (b) Increased application of capital intensive cargo handling systems especially in container handling and introducing appropriate technology and cargo handling systems;
- (c) poor corporate and business oriented culture among the employees of service ports;
- (d) poor management practices;
- (e) inappropriate organisation structure;
- (f) increasing labour costs;

- (g) inadequate information and operational systems;
- (h) Overall inefficiency;
- (i) Changing the skills mix and introducing “young blood”. The majority of dockworkers are not very well prepared in terms of skills to man sophisticated and expensive equipment. The majority of the workers are now past the age of 45 years, which is another limitation in this regard (Please see **Figure No. 4** below).

Figure No. 4



Source: Study on the preparation of concession for the container terminal Dar Es Salaam port by CPCS Transcom -interim report 1998

Labour reforms are one of the most sensitive and complex issues of the privatisation process in any country. This is because in most cases it involves massive loss of jobs creating adverse social and economic impacts. In THA, the port authority is providing labour which it employees under permanent terms. The authority also maintains a pool of 600 labourers for casual work in the dry bulk cargo handling operations. Plans are under way to decrease the permanent labour force and increase casual labour. It is in the interest of the government to limit the negative impacts

associated with labour reforms taking into account that Tanzania is a developing country with abundant cheap labour with limited opportunities for alternative employment.

Since 1994, THA has been carrying out labour reforms to achieve optimum workforce and reduce costs. Actions taken include restricting fresh employment, undertaking retrenchments, and encouraging early retirements through incentives and golden handshake. As expected labour reforms have not been popular and the workers are disillusioned following massive loss of jobs and problems relating to the adequacy and timely compensation to those who have been retired or laid off. The workers would not wish the repeat of the experience of 1977 following the collapse of the EAHC and EACHS, and establishment of THA. Until today, some of the ex-workers of the defunct East African Corporations are yet to be paid in full their terminal benefits. It is only logical that the workers are demanding active participation in the privatisation programme. Also they are demanding for fair treatment and guarantees on continued employment, payment of fair retrenchment packages and salary for those who opt to remain in employment.

4.9 The Recommended Approach

Privatisation is a long and complex process. This is a new concept in the ownership and management of ports for most developing countries including Tanzania. The country has no experience hence the need to learn from the experience of other ports, which have successfully implemented privatisation. Based on the foregoing, a phased approach to privatisation is recommended for THA. First the authority needs to be transformed to a more commercially oriented port. This is necessary for the port to cultivate a commercial culture and work in accordance with the requirements of the market. At this juncture, it will be in a position to attract private investors and operators in the port. Secondly the port is to be transformed from a service port to landlord port status. This means that the operational activities of the port are

subdivided into business units, which are then put on concession or leased to the private operators. The transfer of the business units to the private sector need to be gradual to allow for a smooth transition, lessen the impact of privatisation and provide a ground to gain experience as we move along. A typical privatisation process for THA is presented in **Figure No. 5**.

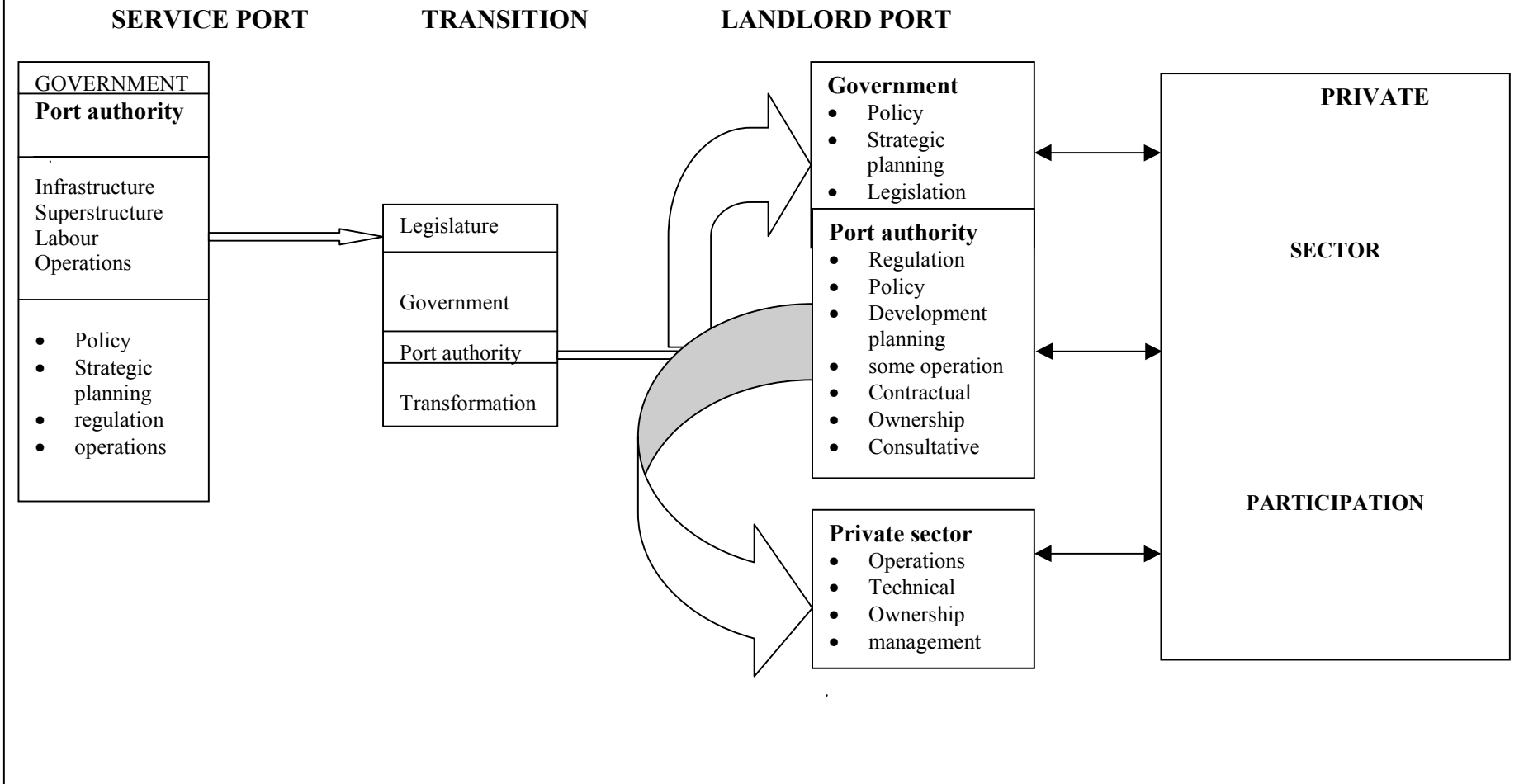
4.10 Conclusion

The mission of a port is to contribute constructively to the nation's economic well being. There was a time when only governments had the resources and could attract the expertise to fund, build, operate and regulate ports. That time is passing. Governments are now asking the ports and its users to pay their fair share. Policies are focussing on enhancing the commercial orientation of port service providers. They are increasingly looking to the private sector to take over services as owners or concessionaires.

Fully liberalised port operations services gives port users a choice of services and cost-based, competitive and non-discriminatory prices. For port operators, a deregulated port sector offers no restrictions on the number of service providers except as limited by market demand or scarce resources. (See also **Appendix 5** for activities that are open to private operators and investors).

Figure No. 5

Summary Of Privatisation Process For Tanzania Harbours Authority.



CHAPTER FIVE

5. Scope of the Privatisation of the Tanzania Harbours Authority

5.1 The Privatisation Process

5.1.1 The Legal Framework

The THA Act of 1977 gives the authority wide ranging powers regarding the development, ownership and operation of ports in the country. The act provides that the organisation should conduct its business according to commercial principles and to ensure that earnings are adequate to cover expenses. The act also provides for THA to enter into contracts with third parties for the provision of its services such as stevedoring, terminal operations etc. However, with enhanced private sector participation through privatisation there is need to have adequate legal authority for implementing the proposed changes. Privatisation will result in change of character for THA from a service authority to a landlord port authority. This will require the revision of the levels of authority in the management of the port industry i.e. the government, the port authority and the private sector. Therefore the legal framework should define the new roles of the three authorities viz.:

- (a) The role of the government or Ministry responsible for ports and harbours;
- (b) Establishment and role of a regulatory authority independent of the government;
- (c) The relationships between the port authority (Landlord) vis-a-vis the private operators.

The Public Corporation Act of 1993 established and empowers the PSRC to undertake privatisation of specified corporations. It also stipulates the key players involved in the privatisation process.

In order for THA to be able to undertake Concession and Lease contracts, the Land Ordinance need to be reviewed. Under the Land Ordinance, lease, sell, mortgage, transfer of land etc government approval through the Commissioner for Lands must be obtained first.

5.1.2 The Sale Process

The main activities involves:

- (a) Advertising the proposals to private seeking interest from potential bidders;
- (b) Preparation of short list of bidders, select privatisation model and prepare detailed invitation to tender i.e. information memorandum, detailed tendering conditions and draft legal documentation.

5.1.3 Business Valuation

Getting the valuation “right” is important for both management and investors in making the right business decisions, get the best terms from the bidder and have what the market can bear (buyer is prepared to pay for). Valuation of divestiture assets on the other hand depends on the profitability of the enterprise. For Tanzania, however, adequate business valuation is sidelined, instead the Government has shown more interest in selling loss-making enterprises, while private buyers are more interested in those that are potentially able to make profit. It is the author’s view that where a state owned enterprise is to be sold, it is prudent that it should be sold for its market value. Hence valuation is important in determining the price offered and to have a transparent process. The valuations provide benchmarks against which to compare both bid and negotiated prices. Valuations are usually done at two levels:

- a) **Company valuations based on a “going concern concept”** to determine present value. The going concern concept entails that value arises from the ability to generate future earnings or cash flows rather than accumulation of assets in the past. Thus company valuation method is normally used to calculate the net present value of projected cash flows discounted at a rate considered appropriate for the risks involved in the pertinent economic, business and technical context. This method is useful for concessions and joint venture agreements;
- b) **Asset valuation on fixed assets** of a state owned enterprise where the option is to sale the assets. This aspect could also cover real estate (land, buildings), plant (machinery and equipment) and movable assets such as motor-vehicles etc. It is proposed that assets be valued on the depreciated replacement cost method, which entails making an estimate of what it would cost to replace a similar piece of equipment or machine at current prices and depreciating that amount for its age.

5.1.4 Selection of Mode of Privatisation

Conducting a functional analysis of port institutional framework and allocating functions according to strategic business units does this. In THA this was realised by the commercialisation study in 1996 followed by the THA privatisation review in 1997.

5.1.5 Preparation of Information Memorandum.

The information memorandum provide potential investors with information about the SOE or BU slated for privatisation so that they could use it to undertake their due diligence investigations. The information included is on legal status and ownership, nature of business, markets and market share, main services and suppliers, organisation and management, fixed assets, financial performance, and information

on employees and conditions of services. Information memorandum for the ongoing privatisation of the Container Terminal has been prepared through a study known as “Preparation of Concession for the Container Terminal Dar es Salaam Port” in 1998.

5.1.6 Bid Evaluation

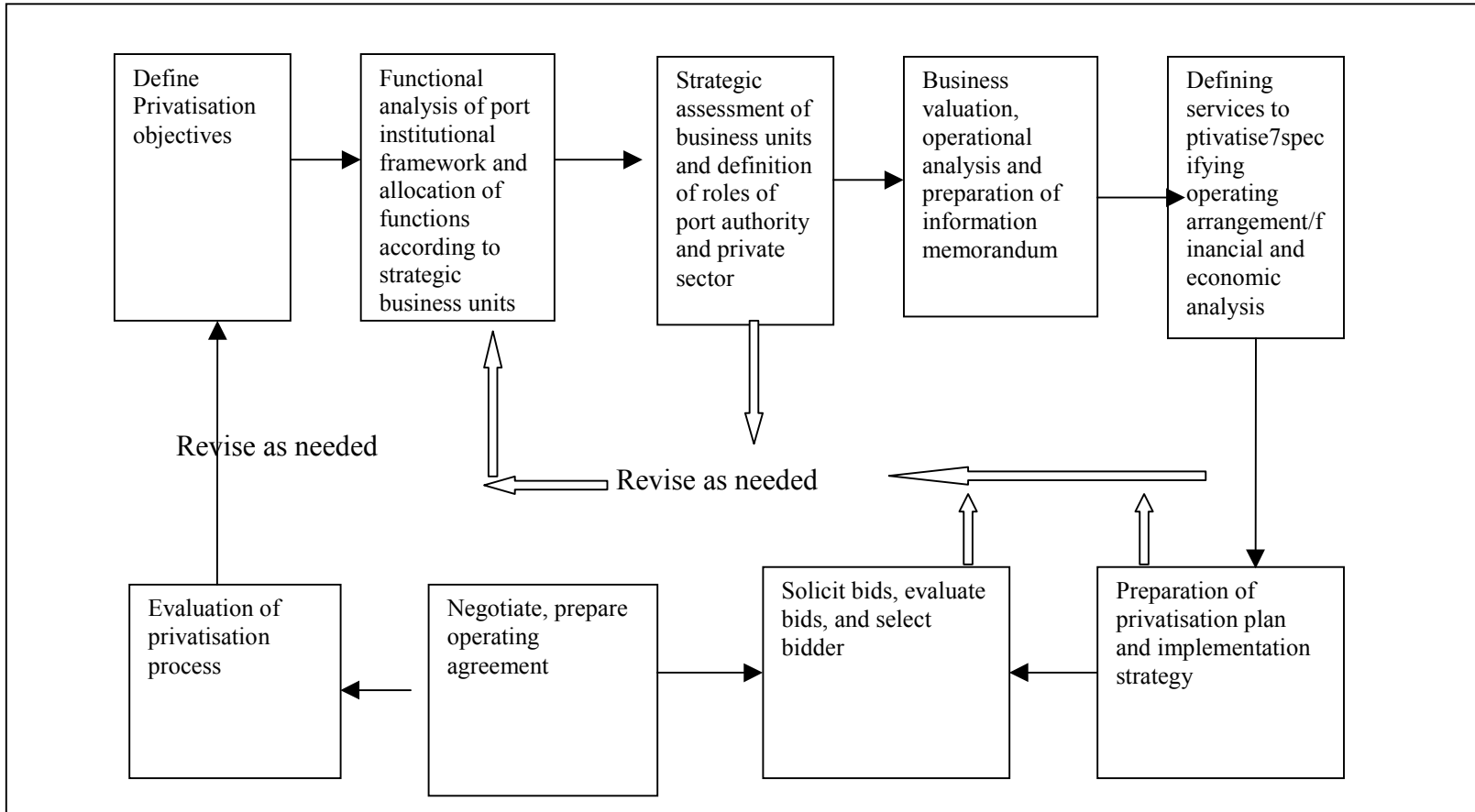
This is performed by the “Divestiture Technical Committee” established by the PSRC. The bid submitted is supposed to assist THA to attain the predetermined privatisation objectives hence evaluation exercise looks into this through the set criteria below:

- (a) Investment programme;
- (b) Financing plan;
- (c) Sales projections;
- (d) Revenue to the government;
- (e) Marketing plan;
- (f) Employment retention and generation;
- (g) Introduction of new technologies.

Summary of the processes involved in privatisation of state owned enterprises are presented in **Figure No. 6** and the **Criteria** used by PSRC to evaluate bids is presented in **Appendix 4**.

Figure No. 6

Typical Privatization Process



5.2 New Roles of Landlord Port Authority

The vision of THA under the reform programme is to transform the existing relationships of a service port to those of the landlord whereby the operational activities of the port are to be managed in partnership with the private sector. In this new arrangement, the port authority will have limited role to play in the ownership, operation and management of the ports. The port authority's role and sphere of influence will be in three main areas:

5.2.1 Developmental Roles

The port authority will be responsible for policy, planning and infrastructure development. The activities will include evolving port and corporate policy, developing strategic master plans, traffic forecasting and looking for funds for infrastructure development. The port authority will also be responsible for long term plans for land not yet developed, providing adequate maintenance of major infrastructure works, maintenance of minimum performance standards regarding annual throughput, berth times, cargo dwell times. In order to do this operators are required to report operational data that will allow the port authority to monitor the proper execution of the concession agreement.

5.2.2 Regulatory Roles

Privatisation will attract several players who will be performing services in varied port activities competitively. Due to a narrow traffic base, effective competition is possible to a limited extent hence the activities of the private operators need to be co-ordinated and regulated to make sure that they are satisfying their customers' needs, complying to public policy objectives and to limit the emergency of private monopolies. Therefore the port authority has to oversee that there is:

- a) Transparency and openness of the system;
- b) Clear articulation of regulatory objectives and the tariff setting mechanism;
- c) A legal structure that clearly defines the rules and procedures that allow participation of the private sector;
- d) The conditions of market entry and exit of private companies;
- e) A well defined process for issuing permits and licenses, allocating land, etc.

Thus the responsibility of the port authority will cover activities relating to licensing, traffic control in the port and maritime accesses, regulation and follow up of dangerous cargoes, port state control, environmental protection and aids to navigation.

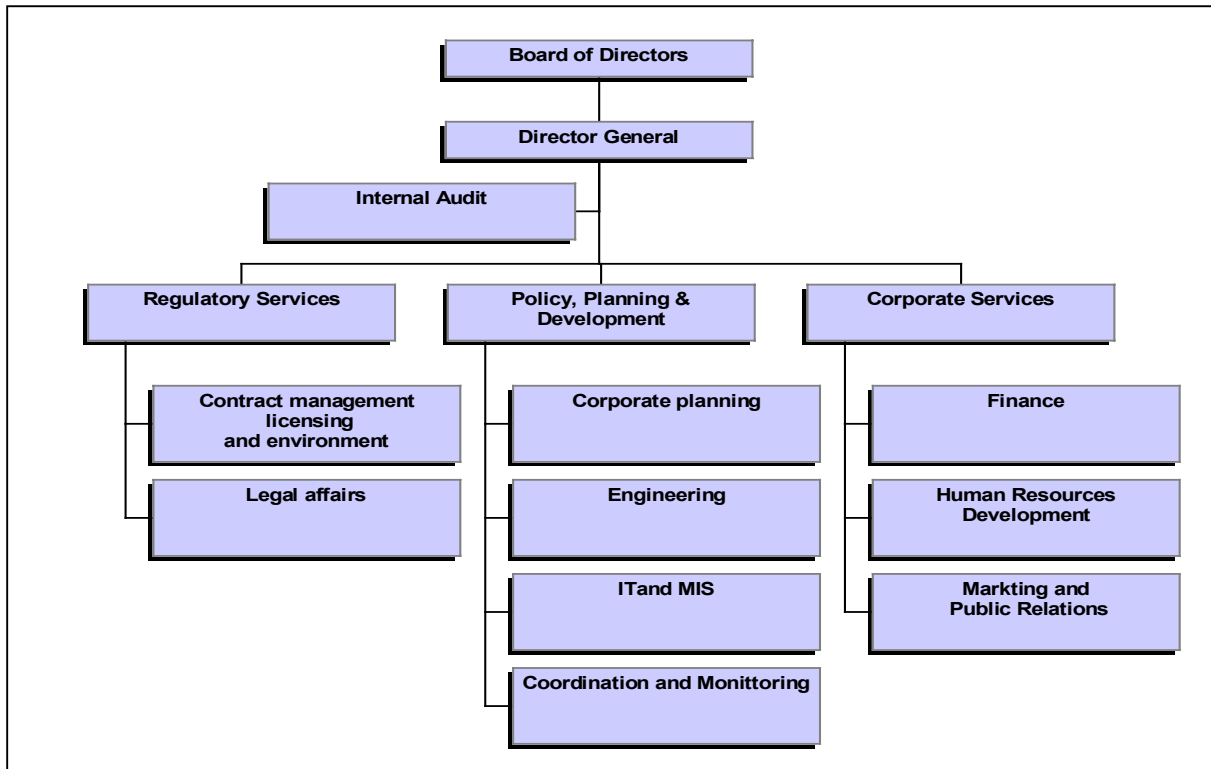
5.2.3 Provision of Corporate Services

The privatisation strategy adopted requires for a few common services to be supplied to the BU. These services can be provided by THA more efficiently than the BU themselves because of their scale and also being common in all. The port authority will therefore be responsible for the provision of corporate and administrative services of the ports in the areas of finance, human resources development, marketing and public relations, Security, Fire and safety. Another major role of the port authority can be to maintain a casual labour pool that individual BU can draw to supplement their permanent labour forces at times of peak demand. The port authority can also set up EDI system, which provides computer links between all major users of the port and related organisations such as customs.

Upon completion of the privatisation process, the organisation structure of THA will change in line with its new roles. The structure that takes into consideration the above major functions is as shown in **Figure 7 below**.

Figure No. 7

Organisation structure of Landlord Port Authority



5.3 Economic and Social Impacts of Privatisation

5.3.1 Impact on Government Budget

One of the objectives of privatisation is to reduce the burden of public enterprises on the government budget. This is achieved by elimination of subsidies and ensuring that services are provided on commercial basis and are able to earn profit on which it can be able to pay dividends to the shareholders and the government. Privatisation also will result in more income for the government from corporation tax. This was not possible during the time of public monopoly enterprises because most of them were not making any profits but depended on government subvention in terms of

subsidies and operating capital. A good example of this is the Tanzania Breweries Limited which after privatisation in 1993 had doubled sales tax income to the government from 12 billion to 24 billion Tanzania shillings. The company was also able to pay dividends of 9 million Tanzania shillings for the first time in its history in 1995.

5.3.2 Impact on Productivity

During privatisation, port labour is reorganised both in terms of structure, number and practices. New and improved labour practices as well as technologies are applied resulting in improved productivity and reduced costs. This works particularly well in bulk cargo and container handling. Improved efficiency of the port will also be realised due to limited government interference, coupled with, streamlined operations, improved management and less bureaucracy. According to the study on the concession of the container terminal at Dar es Salaam port, low productivity is due to inadequate investments, cumbersome THA operating procedures and poor staff motivation. All these factors are associated with the institutional framework of the organisation and will improve with the enhanced private sector participation. Ports, which have opted for privatisation, have their productivity improved. Examples include Port Kelang in Malaysia where, according to ESCAP/3 (1998) report, average stay of ships improved from 12 days to 3.8 days and container throughput increased by 12% in 1987.

5.3.3 Impact on Investments

Cumbersome regulations and procedures that hinder timely mobilisation of funds and investments often surround most public enterprises. It so happens that the management is slow to decide on taking loans or even using the Authority's own funds for making major investments. The capital budget has to be submitted to the government for approval. The criteria on which the approval is granted are

sometimes not related to the expected economic returns to the investment but to various extended and non-economic factors. Privatisation will give the authority more autonomy in raising loans or funding means of self financing and using more professional expertise in investment planning. Privatisation will revive some of the facilities, which are in poor state enabling the port to diversify some activities relating not only to vessel and cargo-related services but off-dock services as well. Increased investments through BOT schemes will lead to improved services and lower costs. An example of a successful privatisation is the Tanzania Breweries limited where after privatisation production increased from 4.5 million cases in 1993 to 9.8 million cases in 1996. Market share also increased from 31% to 75% during the period.

5.3.4 Impact on Technology

International participation through various privatisation schemes will impact on transfer of technology, management skills and business cultures

5.3.5 Impact on Ports' Competitiveness

Competition promotes efficiency and provides users with options that in turn make infrastructure providers more accountable. Opening up business to private sector not only brings with it access to investments and new technology, but also more bodies who are already trained to run business, are more experienced, specialised and disciplined. The private sector is also very aggressive, cost conscious and responds faster to market needs. These are essential qualities for effective competition.

5.3.6 Impact on Tariff Setting and Marketing

Tariffs are a function of several factors. These include investment recovery, port costs, taxation, competition, and volume of traffic and what the market can bear.

Under a privatised THA the operators will have autonomy to charge directly for their services and institute their own pricing strategies based on their assessment of the above factors. The tariff system will have to be as responsive to the market as possible. Government involvement in the tariff setting mechanism, which has in the past been associated with delays and lack of focus on the market will be minimal.

5.3.7 Negative Impacts

5.3.7.1 Retrenchments/Loss of Jobs and Insecurity of Work

The most notable negative effect of privatisation is loss of jobs through retrenchments and layoffs. This has taken place in almost every port, which introduces privatisation or other types of reform as evidenced in **Appendix 6**. So far in THA more than 3,000 employees have been laid off as the organisation prepares itself for privatisation. This is a very big problem for a country where alternative work is non-existence. This has also far-reaching consequences on society considering that the dependent ratio is very high in Tanzania where about 10 people owe their living on one working person. Continued reduction of the workforce and reduced security of employment for those who remain on the payroll of the privatised firms causes unrest among the workers and increased resistance to further privatisation among the trade unions. This further leads to low morale of the workers due to uncertainty of future employment.

5.3.7.2 Foreign Ownership

Because of low financial capability of the local entrepreneurs, it is mostly the foreigners who win tenders to own and operate privatised firms. Since the commencement of the privatisation programme local participation has been very minimal. As a matter of fact most companies have been privatised to foreign firms. This trend is expected to continue in the port industry as well. So far the privatisation

of the Container Terminal has attracted five multinational companies all of which have no local interest in them. Increased foreign ownership is associated with capital flight and non-commitment to long term national interests.

5.4 THA Business Units Current Status and Divestiture Alternatives

5.4.1 Container Terminal

The Container Terminal has three deep-water berths with a capacity of handling 120,000 TEUs per Annum. The quay length is 550 metres. Facilities include 3 ship to shore gantry cranes, 16 RTG, 1 RMG, straddle carriers/front-end loaders and other terminal equipment. Back up facilities for the Container Terminal includes an Inland Container Depot located about 2 Kilometres outside the port. The container terminal is one of the most important BU for THA. Currently the terminal handles about 100,000 TEUs per annum against rated capacity of 120,000 TEUs per annum. Throughput has been increasing year after year. The importance of the Container Terminal is poised to grow further at the expense of the General Cargo Terminal given the international cargo traffic trends and market developments. Container penetration in the dry general cargo trade has reached more than 60%. The terminal, which has recently been modernised and expanded through World Bank funding, is in very good shape and very well maintained. Investment requirements are therefore relatively low. The facility is considered to be a very attractive BU for the private sector. The terminal has been chosen to be the first candidate for privatisation under concession arrangements. The process commenced with a study, which was commissioned in 1998. The study tasks were:

- (a) Preparation of the information memorandum for the private operators;
- (b) Assessment of the most appropriate form of privatisation;
- (c) Preparation of the tendering documents;
- (d) Assistance during tendering process;
- (e) Drafting of the concession agreement.

At the time of writing of this report, bids from five pre-qualified bidders (all foreign international companies) have been received and were being evaluated.

5.4.2 General Cargo Terminal

The re-paved General Cargo Terminal has eight deep-water berths to cater for dry break bulk cargo. It has eight sheds with a total floor area of 81,040 square meters in the port. It is equipped with 28 Portal Cranes (5-7 ton capacity), 27-Yard Cranes (3-5 ton capacity), 119 forklift trucks (2.5 – 3.5 ton capacity), and 44 tractors and 86 trailers. The annual throughput is currently around 1.5 million tonnes against rated capacity of 2.5 million tonnes per annum. This is the biggest BU within THA and employs the largest number of workers, about 60% of the total employees of the port. Some areas of the general cargo terminal were rehabilitated under the World Bank funding in 1990. However, other areas of the terminal still require some improvement in resurfacing and equipment. A relatively high level of investments will be required. This may limit the BU's attractiveness to outside investors and which therefore may have difficulty in attracting capital market support. The market for the traffic is not very bright due to competition from neighbouring ports particularly for transit cargo. Privatisation of this BU will have some implications in terms of organisation, personnel and operations. The ideal privatisation approach for this BU is to divide it into at least three units to be leased to different operators. This will instil an element of competition and also optimise the utilisation of the facilities.

There had been private sector interest in operating some parts of the terminal. In 1996 NOTCO submitted proposal for the lease of the berth No 1 (Belbase area) as a private terminal for 20 years and have indicated their willingness to invest 4 million US \$ for its development. THA did not consider this proposal any further because of the uncertainty about the way the berths were to be privatised. The author recommends follow up of these initiatives.

5.4.3 Dry Bulk Handling.

The Grain Terminal has a fully automated silo for handling import and export grains. Discharge is by a grab/hoppers system including three bagging units. Grain is transferred from the quay by 10 dump tractors. The silo is aerated and temperature controlled and has a holding capacity of 30,000 tons. Fumigation facilities are also available to protect the grains against damage by moulds or insects but there are some environmental considerations of air pollution and dust arising from the open handling method. Investment requirements are low; there are relatively few employment implications. There are some positive contributions from the market due to the ideal facilities and strategic location for grain imports into Tanzania and Central African countries.

There have been moves to have private participation in the operation of this facility. NECTAR Company of France has showed interest to enter into Joint Venture with THA since 1994. The signing of the contract agreement was delayed due to disagreement in relation to:

- (a) Value of the assets;
- (b) The amount of the lease rentals;
- (c) Amount to be paid as NECTAR'S management fee.

There has been no further progress since the start of the privatisation programme under PSRC. It is however recommended continuing with the Joint Venture option.

5.4.4 Bulk Liquid Handling

There are two facilities for handling of liquid products. The Single Point Mooring (SPM) is an off shore berth for tankers to moor and discharge crude oil for refineries in Dar es Salaam and Ndola in Zambia. The buoy can accommodate tankers of up to 100,000 DWT and can handle 5,000 tons per hour. The draught at the buoy is thirty metres. White products are handled at the Kurasini Oil Jetty (KOJ) which has the

capacity to handle Tankers of up to 45,000 (DWT). The SBM needs substantial investments while the KOJ has recently been upgraded. The market for KOJ is quite bright, but that of SBM is in doubt following the Government's decision to liberalise the importation of oil as well as the local oil market. Since the facility serves refineries in Tanzania and Zambia, its privatisation will have serious strategic, political and social implications. Environmental considerations are other important factors for this BU. The privatisation options for KOJ and SBM are short-term lease and BOT arrangements respectively.

5.4.5 Marine Services

The Marine Services include pilotage, tug services, traffic control communications, navigational aids, hydrographic, shipping rules and regulations and other miscellaneous services to ships. It also provides some regulatory and enforcement responsibilities on behalf of the government. The unit provides positive contribution to THA and is strategic for rating the quality of a port by shipping companies. The unit suffers from poor quality of services to vessels due to poor maintenance and spare part difficulties. Although consultants have recommended that the unit be put on lease on Vessel Management Contract and Franchise, the author's view is to retain the services under the port authority due to the sensitivity of the BU and the central role it plays in serving other business units.

5.4.6 Passenger Terminal and Lighter Quay

Not much attention was being paid to this BU by THA on the pretext that it is not a core business. Admittedly it is one of the fastest growing activities which THA cannot afford to ignore any longer. Currently most of the facilities are in poor state of repair and the whole area is in need of redevelopment. This area comprises the fast ferry passenger terminal encompassing a group of small berths used for various purposes including:

- (a) Gerezani creek comprising of reclaimed lands about 2.25 hectares. There are berthing facilities but the area is suitable for building warehousing and storage facilities;
- (b) Malindi wharf, which is 139 metres long, is used by small coastal vessels carrying passengers and cargo. The area requires resurfacing and re-fending;
- (c) Lighter Wharf with 204 metres long is used for berthing of THA crafts including Tugs, Pilot Launches, Boats and also private Fishing Vessels and Dhows. The buildings are in poor condition and unused while the open spaces have been used for dumping of old marine equipment.
- (d) Dhow owners, shippers and consignees privately use dhow quay of about 90 metres long with a very narrow apron of 20 metres. THA supervision of the activities here is minimal leading to area being congested and busy;
- (e) TACOSHILI wharf with 105 metres is currently not being used because the company is not operating;
- (f) Passenger terminal comprises of a large area much of, which is unused except for the maintenance of fast ferries. It comprises of the passenger wharf and landing pontoon, the TACOSHILI coastal passenger terminal, the ferry passenger terminal (Baggage room) and the access ship road. Due to increased importance of passenger transport needs between Dar es Salaam and Zanzibar, the terminal is in need of expansion and provision of safety mechanisms for both passengers and vessels. The business units are to be privatised under BOT arrangements.

5.4.7 Tanga and Mtwara Ports

Tanga port has rated capacity to handle 500,000 tonnes while Mtwara port is rated to handle 400, 000 tonnes of general cargo. The market for these ports is severely depressed making them to operate below 25% capacity utilisation. There are no great prospects for growth hence it will be difficult for both ports to attract private

investors. However, the two ports are of significant importance to the regions they serve. There are considerable employment and personnel implications as well. On this note short term privatisation plans for these ports should focus on:

- (a) Increased autonomy in relation to issues such as tariffs, employment;
- (b) Concentration of management effort on core business;
- (c) Divestiture of support activities such as security, real estates, fire etc;
- (d) Transfer of other activities to the private sector as soon as viable opportunities can be obtained;

Long term efforts should be directed at utilising the ports for facilitation of transshipment traffic in the East African region. In this regard the government should take action to improve inland transport links to these ports and interest the shipping lines to invest at these ports.

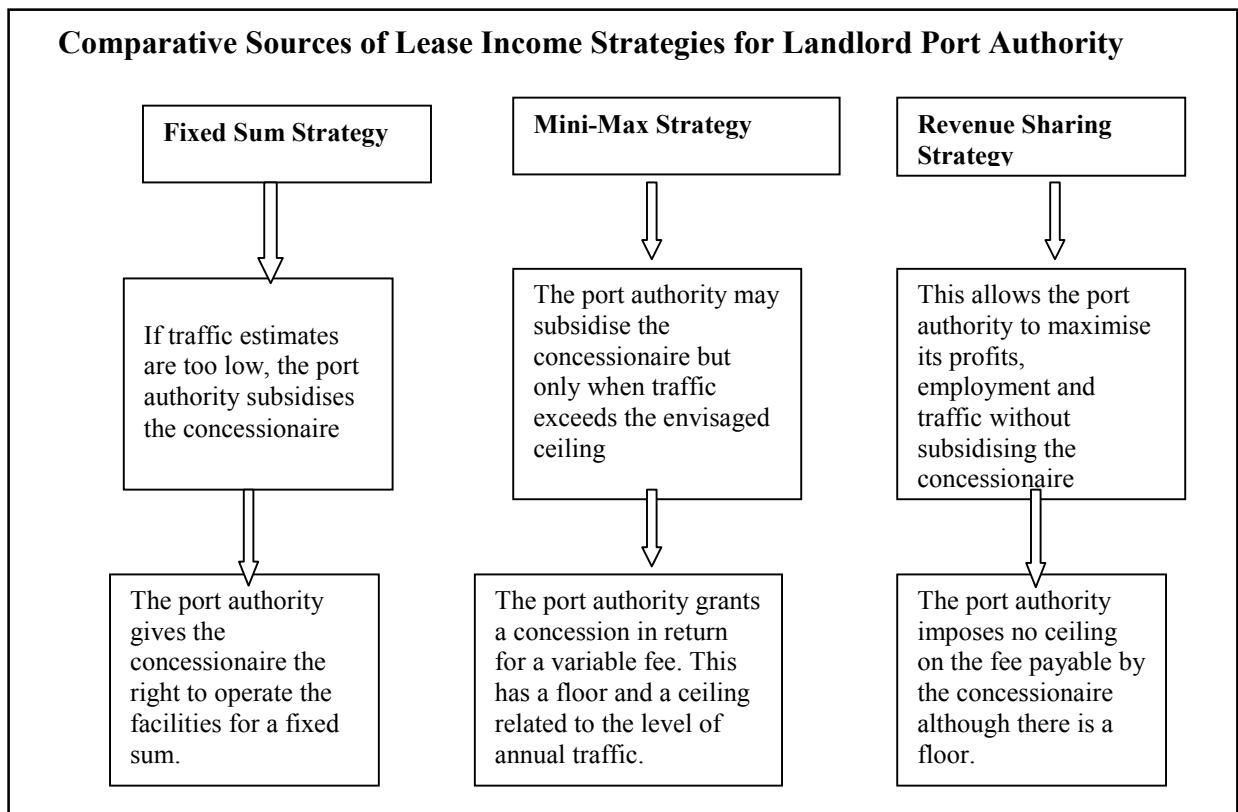
Summary of Consultants recommended privatisation options is presented in **Appendix 7.**

5.5 Strategies for Setting Concession and Lease Tariff Rates for the Landlord Port Authority.

Contracting out services and facilities is a standard feature of landlord port authorities. The privatisation of THA entails that most of the port activities will be contracted out to private operators. This means that the major source of revenue for the landlord port will come from **concessions and leases**. In fixing the fees to be paid, consideration should be made for the private operator to attract more traffic to the port and at the same time provide an assured income on the part of the landlord port authority. Prospective private operators and investors should therefore be assessed as to their ability to attract traffic and how the commercial risk is spread between the port authority and the operator. There are basically three strategies of achieving this:

- (a) Recovering the costs of the facilities plus a suitable rate of return on the assets by applying the fixed sum strategy. This is not a suitable method for THA because of the low traffic levels currently being handled;
- (b) Applying the Mini-Max strategy that requires agreeing on a minimum and maximum levels with payment calculated based on the actual traffic handled. This can be an effective strategy for THA because future traffic is very unpredictable. However, good traffic forecasting and performance monitoring is required so that the operator does not take advantage of low maximum levels fixed to maximise profits;
- (c) The revenue sharing strategy that takes into account the traffic attained without fixing minimum or maximum levels of payments. This strategy does not provide any guaranteed payments to the port authority but is very effective to both the operator and port authority where traffic is high and growing.

Figure No. 7



The Landlord port authority has other sources of revenue besides from concessions and lease fees. Potential sources are listed in **Appendix 8**.

5.6 Conclusion

THA has decided to adopt different privatisation strategies suitable to each of the business units to be operated as cost/profit centres. Privatisation of the operational activities will lead to THA to be transformed into a landlord port authority and also perform the regulatory functions. As landlord port authority THA will concession and lease out the commercial activities to the private sector. Privatisation is expected to improve the operational performance of the ports and contribute positively on the government budget. The major negative impact of privatisation has been identified to be the massive loss of jobs. However it is expected that in the long run privatisation will contribute towards increased creation of jobs and thus alleviate the current shortages.

CHAPTER SIX

6. Recommendations and Conclusions

6.1 Gradual Move Towards Privatisation

The privatisation of THA is long and complex hence there is need for a “phased approach” in the implementing it. First THA has to undergo commercialisation aimed at introducing commercial viability criteria in business operations. This will create an enabling environment for effective private sector participation. Commercialisation should go hand in hand with deregulation and liberalisation measures in order to create an attractive and competitive market environment that is open to private sector operators and investors. Implementation of these reform measures prepares the ground for privatisation of the operational activities of the port.

6.2 Creation of Business Units

Serious efforts towards private sector participation commenced upon the commissioning of the all-important “Commercialisation Study” in 1996 followed by the “Tanzania Port Privatisation Review study” in 1997. A major recommendation of the two consultant reports on privatisation of THA is the pursuance of the Business Units concept towards the transformation to landlord port status. The basic idea was to split up the port activities into small units, which would operate on the basis of cost/profit, centres. The created business units would have to develop their own organisational structures suited to the needs of their own market sector and the personalities of the people running them. This makes the business units more aware

of what their costs and revenues are, and of the actions they need to take to service their customers more effectively. THA has to also decentralise the operations of the three major ports of Dar es Salaam, Tanga and Mtwara. This will give the ports more autonomy in making their own decisions particularly on issues related to investments, tariff setting, manpower requirements, etc. The Headquarters needs restructuring in line with the new roles and functions after privatisation.

6.3 Improving the Business Environment

There are issues that may limit the realisation of the privatisation objectives. Understanding changes and their implications on port performance and development is but a necessity for a successful privatisation. Thus as privatisation gains momentum, THA should be aware of the global trends and their impact on the port. Ports and international transport in general are being viewed as part of the production process. A liberalised economy creates an attractive environment to integrate the local economy to that of the rest of the world. This creates opportunities to producers and investors as a result of the enlarged resource base and market. Current trends in shipping show that bigger ships, especially container and bulk carriers are now dominating the international shipping market thereby putting pressure on ports to make heavy investments for maintaining deep water berths and access channels, and purchase of appropriate equipment. This has also influenced the developments of Hub/Pendulum and transshipment ports in the Indian Ocean at Salalah, Aden, Mauritius, Djibouti and Durban thus intensifying competition in the region. If this trend continues most of the East African ports will be relegated into feeder ports.

6.4 Investments and Information Technology

The port authority should continue investing in state of the art facilities. These should include putting in place a computerised system that will enable the port to provide accurate real time information for planning and managing terminal

operations. This can be extended to port users who are updated with real time data that is so vital for them to effect better logistic management. A business environment will be enhanced with thorough use of Information Technology. IT development needs to be done very fast. The application of information technology has very positive impacts on the ports in relation to documentation, record keeping and dissemination of information, and decision making. What causes a big change in port is good and fast communication as has happened to the port of Aarhus in Denmark. Good communication helps the port to reduce operational delays, improve documentation, improved cargo clearance procedures thus making the port to be rated the best customer service provider in Europe.

6.5 Labour

There have been concerns about the negative effects of privatisation particularly with regard to loss of jobs. However, there are still a virtual absence of policies on retrenchment and payment of benefits thereof. The government also has yet to establish social safety nets that will absorb some of the shocks of privatisation, as there has not been determined efforts to come up with acceptable solutions.

There are proposals that the remaining employees should be casual. It is the author's view that this would not be a good solution because of the negative implications associated with casual labour. In the long run casualisation of labour-force results in increased poverty, insecurity and workers getting worn out quickly. It is a problem on the part of the port authority and the private operator because they cannot be guaranteed qualified employees as it is very difficult to provide proper training to casual employees. The port operators would benefit by engaging permanent labour as they would have loyal, committed and properly trained worker. During the transformation period, THA will however continue to employ many workers compared to what is happening in other parts because of the local conditions and the peculiarities listed below:

- (a) Inadequate capital resources;
- (b) Cheap and abundant labour resources;
- (c) Constraints with regard to automation and computerisation;
- (d) Factors such as poor information systems, poor technological base, unreliable power supply, etc.

6.6 Reforms and Improvements in Sectors Linked to Ports

The port's competitiveness depends very much on the state of the Railways and roads for moving cargo from the port to the hinterland and vice-versa. Tanzania is very much constrained in this area. Inland transport is not only poor but also inadequate and unreliable making it very difficult for the port to compete effectively for transit cargoes to the landlocked countries. In recent years competition has very much intensified making the port lose a substantial share of the market particularly to the port of Durban in South Africa. Inland transport links are important for a port and to shippers so as:

- (a) To be competitive;
- (b) Reduce transit time - getting the goods at the right time and place;
- (c) Reduced transport costs (tie in capital - high value cargo very sensitive to time, insurance costs);
- (d) Minimise damage to goods –perishable goods, high value cargo.

The role-played by customs in the port is one of the issues that impact a lot on the performance of a port. Suffice it to say that cumbersome documentation and customs clearance procedures contribute a lot to the problems related to high cargo dwell times and port congestion. For effective privatisation the way customs conduct their business in the port needs to be reviewed so that customers do not have to suffer unnecessarily to have their cargo cleared.

The port is an important link in the entire transportation chain. A well co-ordinated transport chain is essential for effective servicing of the economy. Therefore the privatisation of ports should go hand in hand with improvements in other sectors that are closely linked to it. In this connection the government should work out a strategy for the privatisation of TRC, TAZARA, NASACO, the road sector and other players.

6.7 Reform Framework and Strategy

There should be continued efforts in implementing organisational changes already initiated. The government has provided the milestone about the future of the port industry in Tanzania. However, the privatisation process is still lacking a clear policy backed by an implementation plan. Areas of concern here include the unclear tenure of office of the PSRC, which raises uncertainty about future management of the privatisation. It is also not clear on the next step that THA should take to proceed with the privatisation of the remaining business units after the container terminal. A clear reform framework would help planning of the necessary reform actions on a wider perspective.

6.8 Training – A Continuous Process

Training is an important activity for any organisation. Training improves culture and business attitudes of the workers as well as enabling them to acquire new skills and technologies, create awareness on environmental protection, and importance of safety. Through training an organisation can improve labour productivity, cost effectiveness, marketing and overall competitiveness. Training will address THA's problems and constraints discussed in chapter two of this study. The port authority should work towards adaptation of a modern corporate culture commencing with the reorientation of key personnel through exposure to the business environment, reinforced by attitudinal retraining of the general staff, with emphasis on the implementation of higher standards of managerial and front desk service quality. By

giving human resource appropriate training in technology and operational systems, the port will be in a better position to adapt and become better prepared for new/modern developments.

6.9 Performance Standards

Performance standards should be set to achieve self-determined targets and those agreed with our principals and customers. These should be annual performance targets and performance contract targets that have been agreed with the government and the East African Conference Lines of which performance thresholds have been agreed on for container handling. The port authority should constantly review performance of private operators. The private operators should thus furnish to the authority information necessary for monitoring performance and conducting annual reviews. In order for the port authority to perform its monitoring and co-ordination functions, private operators be required to provide report and information on the activities and operations of privatised facilities on a regular basis or as may be determined by the port authority. Basic information and reports should include:

- (a) Cargo throughput (Quantity and types of cargo handled);
- (b) Shipping traffic (number and types of ships, railcars, or trucks loaded or unloaded);
- (c) Availability and use of major equipment such as Gantry Cranes, Reach Stackers, Front-end loaders, etc.

Provision of such information should be by use of appropriate information systems available especially EDI.

6.10 Marketing Strategy

For improved efficiency and competitiveness, there is need for the port community to promote and develop the privatised facilities to achieve its maximum utilisation. The

benchmark for all marketing is to ensure that there is no significant decline in service standards. Port marketing and market dominance based on the establishment of a more competitive pricing strategy should be improved. The strategy of establishing autonomous business units should be followed by extensive micro accounting of cost and revenue centres that should be instituted and integrated with the expansion of computer aided financial control system. Objective analysis of cost and revenue data for all business units would lead to the optimisation of future services mix.

6.11 Land Requirements

This is the ultimate goal for THA after privatisation. The foundation for any landlord port is the availability of adequate and suitable land that is to be developed or availed to the private sector for industrial development. This will help put logistic or distribution centres, off dock activities, etc. The authority should continue efforts to acquire land as per the powers conferred upon it by Government notice No. 54 of 1994 on port harbour limits and peri-harbour limits. At the present time, the authority has abundant land in Dar es Salaam, Tanga and Mtwara and the Act invests powers on the authority to formally acquire and develop for future use. Currently there is a talk about establishing Free Port and Export Processing zones. This idea should be developed further in line with land requirements and implemented without further delay.

6.12 Commercialisation/Privatisation Initiatives in Progress

There is need to maintain the momentum of the privatisation process. It should be noted that the privatisation programme under the PSRC has put to a halt, at least temporarily, the privatisation initiatives, which were in progress then. The privatisation momentum could not be maintained in the following areas:

- (a) The joint venture initiative between THA and NECTAR for the Bulk Handling Terminal;

- (b) Privatisation of the passenger terminal and the lighterage quay on the basis of the master plan prepared by Coode Blizzard in 1996. The master plan offered opportunity to involve the private sector in all or part of the redevelopment process on a Build operate Transfer (BOT) basis;
- (c) Commercialisation of Tanga port based on a draft strategic business framework prepared under the ODA funded technical assistance programme;
- (d) Leasing of the Belbase area (Berth 1).

6.13 Common User Facilities

All privatised terminals and facilities should as far as possible, be leased out and operate as common user terminals or facilities open to any and all shippers, consignees of cargo and to all shipping lines.

6.14 Limitations on Use of Privatised Facilities

Privatised facilities should be used as per their intended purposes and objectives. There is need therefore to limit the use of the facilities granted to private operators within the contract agreement and that any alteration should be the responsibility of the port authority. This means that the lessee shall use the facilities and equipment in accordance with the lease agreement and shall not alter, store, move, and provide logistic services for no other purpose without the prior written approval of the port authority (Landlord).

6.15 Conclusion

Based on the discussion and analysis made with regard to the privatisation of THA, private sector participation will take different forms. The most relevant ones are sale of assets, concessions and joint ventures. Whatever methods are adopted, the realisation of the goals of the programme rests on effective management of the

privatisation process and the privatised enterprises. In this regard, a fully developed, supportive and mature enabling environment characterised by a well-developed capital market, investment codes, a flexible labour market, and adequate infrastructure facilities, effective managerial practices are crucial to the attainment of privatisation goals.

With the short-term negative consequences of a privatisation programme such as unemployment due to retrenchment, management of privatised enterprises and restructured state-owned enterprises need to be socially responsive in not only mitigating the adverse effects of privatisation, but also responding to the emerging needs of the society. Achieving economic goals, maintaining competitive advantage, and being socially responsible simultaneously require innovative managerial practices. Innovative managerial practices are needed not only to seize the opportunities but also to face the challenges created by privatisation.

Constraints inhibiting both THA and the private sector in the country, at least during the transition period, call for formation of a public/private sector partnership in the ownership, management and operation of ports' activities as a means to sharing risks, investments and profits.

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APPENDICES

Appendix 1

PORT PROFILES

The Port of Dar es Salaam

The port of Dar es Salaam is Tanzania's principal port. The port has a total quay length of about 2,000 metres with the following facilities:-

(a) Container Terminal

The Container Terminal has three deep-water berths with a quay length of 540 metres is equipped with three Ship to Shore Gantry Cranes (SSG) – each having a capacity of 35.6 ton. Six Rubber Tyred Gantry Cranes (RTG) for stacking containers in the yard. Loading and unloading of wagons is carried out by a 35.6 ton Rail Mounted Gantry Crane (RMG) which is positioned at the conversion of the two railway lines (Tanzania Railways and Tanzania Zambia Railways) serving the port. Back up facilities for the Container Terminal include an Inland Container Depot located about 2 kilometres outside the port. In addition the terminal is equipped with adequate compliment of transfer equipment. The terminal rated capacity is 120,000 TEUs per annum. In 1996 the Terminal handled 98,906 TEUs.

(b) General Cargo Terminal

The re-paved General Cargo Terminal has eight deep-water berths to cater for Dry Break-Bulk Cargo. It has eight sheds with a total floor area of 81,040 square meters in the port. The Terminal has an annual capacity of 2.5 million tons. It is equipped with 28 Portal Cranes (5-7 ton capacity), 27-Yard Cranes (3-5 ton capacity), 119 forklift trucks (2.5 – 3.5 ton capacity), and 44 tractors and 86 trailers.

(c) Grain Terminal

The Grain Terminal has a fully automated silo for handling import and export grains. Discharge is by a grab/hoppers system including three bagging units. Grain is transferred from the quay by 10 dump tractors. The silo is aerated and temperature controlled and has a holding capacity of 30,000 tons. Fumigation facilities are also available to protect the grains against damage by moulds or insects.

(d) Oil Terminals

The Single Point Mooring (SPM) is an off shore berth for tankers to moor and discharge crude oil for refineries in Dar es Salaam and Ndola in Zambia. The buoy can accommodate tankers of up to 100,000 DWT and can handle 5,000 tons per hour. The draught at the buoy is thirty metres. White products are handled at the Kurasini Oil Jetty (KOJ) which has capacity to handle tankers of up to 45,000 (DWT).

(e) Passenger Facilities

Passengers from Coastal Vessels embark and/or disembark at Malindi Wharf. General Cargo Terminals also handles Cruise Vessels, as the port has no dedicated terminal for cruise vessels yet.

(f) Cargo Centres Owned by User Countries

Some user countries have their own cargo centres located near the port to facilitate cargo consolidation. Notable ones are the ZAMCARGO and Malawi Cargo Centre (MCCL). ZAMCARGO is a Zambian owned clearing and forwarding company that has specialised in clearing cargoes from Zambia. The company has its own yard near the port for both export and import consolidation. The yard has a Tanzania Zambia Railway Authority (TAZARA) railway siding. The company owns a fleet of tractors and trailers for transfer of cargo to and from the port.

The Malawi Government has established dedicated cargo facilities in Dar es Salaam and Mbeya (some 750 kilometres from the port) to speed up transit traffic to and from Malawi). Facilities available include a warehouse, container handling yard

with a 35 tonnes Gantry Crane and a rail siding. MCCL has also a 12,000 cubic metre diesel tank, 7,700 cubic metre petrol tank and rail siding at the tank farm. There are 22 tank wagons, which move fuel between Dar es Salaam and Mbeya on TAZARA. At Mbeya, Malawi Cargo Centre operates a depot with the following facilities: 35 tonnes gantry crane, a warehouse, 2,500 cubic metres tank farm and rail siding.

(g) Link to the Hinterland

Dar es Salaam port is linked to its hinterland by two railway systems, the Tanzania Railways Corporation (TRC) and Tanzania Zambia railways Authority (TAZARA). The TRC Line is 1,255 kilometres long. It goes up to the shores of Lake Tanganyika linking Dar es Salaam port not only with Western Tanzania but also with Bukavu in Zaire and Burundi. The line branches at Tabora and goes to Mwanza on Lake Victoria to link the port with Uganda and Western Kenya. Before reaching Mwanza, at Isaka TRC has built a **modern depot** to facilitate transshipment of cargoes to Kigali in Rwanda some 500 kilometres from Isaka. Both Tanzania Railways Corporation and Uganda Railways Corporation (URC) operate rail wagon ferries across Lake Victoria. The ferries connect Mwanza with Port Bell in Uganda. At Ruvu, some 60 kilometres from Dar es Salaam the line branches to Tanga where it stretches further to Moshi and Arusha in Tanzania and Taveta in Kenya where it connects to the Kenyan railways System.

The Port of Tanga

The port of Tanga which is the second in size has the following facilities:

- (a) Two lighterage wharves with a total length of 381 metres and nine (9) handling points.
- (b) Nine (9) transit sheds with a total flow area of 21,913m²
- (c) Stacking grounds area of 11,334 m²
- (d) One fertiliser jetty

The port of Tanga is rated to handle 500,000 tonnes of general cargo per annum.

Mtwara Port

The port of Mtwara (the third in size) has rated capacity to handle 400,000 tonnes of general cargo and has the following facilities: -

- (a) Two- (2) natural deep water berths with total length of 380 metres.
- (b) Four (4) transit sheds with total floor area of 16, 723 m²
- (c) Stacking ground of 13, 000 m².

Small Ports

(a) **Lindi**

One (1) dhow jetty, three (3) transit sheds with floor area of 150m²

(b) **Kilwa Masoko**

One (1) dhow jetty, one (1) transit shed with total floor area of 297 m²

(c) **Mafia**

One jetty

Appendix 2

The Increasing Size of the Container Ship

Date	Generation	No. of TEUs	Speed	Length (metres)
1960 – 1970	1st generation	Less than 1,000	16	180
1970 – 1980	2 nd generation	2,000	23	215
1985	3 rd generation	3,000 – 4,000	23	260 – 280
1988	4 th generation	4,000 – 5,000	23	275 – 305
1995	5 th generation	6,000 +		310 – 42.8b 14m draft
	6 th generation	8,000 +	23	338 46b 13mdraft

6th generation see Lloyd's list July 1998 on proposed new Maersk tonnage.

In 1998 there were some 36 container ships with drafts greater than 14 metres.

Ship size	No of tiers under deck	No of tiers on deck	No of rows across deck
2,000 TEUs	7	4	13
3,000 TEUs	7/8	4/5	13
4,000 TEUs	8/9	5/6	13
5,000 TEUs	9	5/6	16
6,000 TEUs	9	5/6/7	17
15,000 TEUs*	10/11	6/7	28

*Hypothetical vessel.

Source R. G Mclellan

Source: Alderton P. An analysis of changes concerning ports and shipping.

Appendix 3

Number of Parastatals Divested or Restructured 1993 – 1997

Mode Of Divestiture	1993	1994	1995	1996	1997	Total	Transport	Shipping
Sale of Shares/assets	5	18	11	24	25	83		
Liquidation	0	16	17	9	11	53	1	
Closure	4	5	1	3	1	14		1
Lease	2	8	5	7	1	24		
Performance contract	0	1	2	0	2	5	2	1
Total	11	48	36	43	40	178	3	2
Placed under LART	0	11	9	0	0	20		
Total excluding LART	11	37	27	43	40	158	3	2

Source: PSRC, 1996/97 Review, pp13

Appendix 4

PARASTATAL SECTOR REFORM COMMISSION

BIDS EVALUATION CRITERIA

BIDDER PARAMETER	SCORE				
	A	B	C	D	E
1. INVESTMENT PROGRAMME					
2. FINANCING PLAN - EQUITY - LOAN					
3. SALES PROJECTIONS					
4. REVENUE TO GOVERNMENT - CORPORATION TAX - SALES TAX - EXCISE TAX - DIVIDENDS (IF J.V)					
5. MARKETING PLAN - EXPORTS - DOMESTIC					
6. EMPLOYMENT RETENTION AND GENERATION					
7. INTRODUCTION OF NEW TECHNOLOGIES					
8. MANAGEMENT AND STAFF DEVELOPMENT					
9. BALANCE OF PAYMENT IMPACT					
10. PRICE OFFERED					

PSRC JANUARY, 1996

BIDS EVALUATION CRITERIA

Bid evaluation criteria for the divestiture of a commercial parastatal would typically consider the following criteria:

- (a) Proposed investment programme
- (b) Proposed financial plan apportioning:
 - Equity; and
 - Loan
- (c) Proposed marketing plan considering.
 - Export
 - Domestic sales
- (d) Projected sales and revenue figures
- (e) Likely flow of funds to the government in terms of:
 - Corporation tax
 - Sales tax
 - Excise tax
 - Dividends (where joint ventures are involved)
- (f) Likely employment retention and /or generation
- (g) Proposed management and staff development plans
- (h) Likely balance of payments impact on the economy
- (i) Magnitude and structure of divestiture consideration (price and modalities of payments)

Appendix 5

Comparative Analysis of Involvement of the Private Sector in the Ownership and Provision of Port and Related Services

Activity	Type of ownership and service %			
	Private	Independent body	Local Port authority	Government department
Service to ships				
Channels, break waters docks etc	4	4	72	20
Aids to navigation-VTS	0	16	72	12
Pilotage	12	28	52	8
Tugs and Boatmen	32	0	52	16
Stores and bunkering	84	0	8	8
Repairs	40	12	28	20
Cargo and passengers				
Terminals	16	12	68	4
Tank farms	44	16	28	12
Cranes	28	0	64	8
Cargo handling	44	0	48	8
Lighterage	32	8	44	16
Land carriers				
Roads	8	8	64	20
Lorry and car parks	36	8	40	16
Railway trucks and depots	0	40	36	24
Inland waterways (within port)	0	8	66	26
pipelines	44	16	24	16
General services				
Conservancy	0	8	52	40
Lighting	0	16	74	10
Fire fighting	0	24	60	16
Police force	0	28	48	24
Labour amenities	0	40	48	12
sanitation	4	24	60	12

Source: Alderton, P. An analysis of changes concerning ports and shipping.

The data was taken from ports in Europe, ASIA, Africa North America and South America. As the sample was small and respondents may not always have been certain on the categorisation of the different activities that best fits their port, the survey only provides a general indication. However, the table does illustrate the complex network of activities that make a port and that they can co-exist within a port whatever the type of ownership, be it private, state, or municipal.

Appendix 6

General Trends in Numbers Employed in Cargo Handling in Port or Country

Year	London	UK	Antwerp	New York	Rotterdam	Cochin	Singapore
1890	100,000						
1900	76,500						
1910	60,000						
1920	52,000	127,000					
1930	39,000	111,000					
1939	29,000	100,000					
1950	22,237	75,265					
1960	23,484	72,550		31,000			
1970	13,280	46,912	15,000	19,500	12,000	3,100	3,000
1980	4,429	22,000	10,000	10,000	10,000	800	1,000
1990			10,000		8,130		

Source: Alderton, P. An analysis of change concerning ports and shipping.

The above table shows a steady decrease in the labour force over the years at virtually all ports even though cargo throughput has been rising steadily. The figures shown before 1970 shows that this decrease due to technological change and more efficient operational practices didn't just start with containerisation but has been steady on going process.

Appendix 7

Consultants' Recommended Privatisation Options for Business Units.

Business unit	Kienbaum Report	Sheila Report	THA Recommendations
THA Headquarters	Restructure setup	Restructure in relation to THA's new requirement to be addresses under privatisation strategy.	Restructure taking into account <ul style="list-style-type: none"> • Transition period • Landlord status
Container Terminal	Management Contract	The Terminal be concessioned to a single, private operator	Terminal be concessioned to a private operator for a period of 10 years.
General Cargo	Commercial operation under THA management	Berth 1 - 4 to be concessioned as two separate terminals. Berth 1 - 2 which are in need of development be offered on the basis of a ten years concession. Berth3 - 4 be offered for a five years period. Berth 5 - 8 to be made available to any properly private company wishing to undertake stevedoring and/or shore side cargo handling operations.	Berths 7 – 8 be leased for a shorter term (3 years contracts) to allow for future expansion of Container Terminal. Berths 4 – 6 be concessioned as one unit (for 10 years). Berth 1 – 3 which are in need of development be offered on the basis of a 20-year concession.
Stevedoring	Privatise under license (free market entry to suitably qualified firms). Shed operations to remain a THA function	Treated under general cargo	Be part of General Cargo terminals.
Dry Bulk Handling	Joint venture	The agreement to establish a Joint Venture with a M/S NECTAR Shipping and Project LTD. for operation of the Grain Terminal be reviewed by an independent Financial Expert to ascertain whether it is in THA's best interest and consistent with its long term position as a landlord port	Arrangements to establish a Joint Venture with a M/S Nectar Shipping and Project Ltd. for operation of the Grain Terminal be reviewed by an independent Financial Expert to ascertain whether it is in THA's best interest and consistent with its long term position as a landlord port.
Liquid Bulk Handling	Commercial operation under THA management	Kurasini Oil Jetty and the Single Mooring Point (SBM) should continue to be operated by THA. More efforts should be made to involve oil companies in their management and development.	Oil Terminals be leased as two units. KOJ be leased to a terminal operator for 3 years period. SBM be concessioned for a longer period to allow the operator to replace the pipeline.
Marine	Commercial	Franchising of a single private	Marine Services be leased to

Business unit	Kienbaum Report	Sheila Report	THA Recommendations
Services	operation under THA management. Transfer regulatory functions to Ministry of Transport or other national body outside of THA.	operator for an initial period of five years with transfer of the existing equipment.	a private operator on vessel management contract and franchise agreement for a period of 5 years.
Dockyard	Privatise via the leasing of assets	Be transferred to the franchise, leased or sold	Be concessioned as a unit for a period of 20 years
Real Estate Management	Operate as THA profit centre under Secretary & Legal department	Core Assets: Retain with THA Housing: Conduct further study Commercial property: Dispose THA house in Tanga	Core land and assets :Retain within THA Residential Housing :Further study be conducted Commercial Property: Retain under landlord.

Business unit	Kienbaum Report	Sheila Report	THA Recommendations
Tanga	Establish as autonomous unit of THA, with privatization of Stevedoring.	Operate as autonomous Business unit under THA	concessioned to Be a private operator for a period of 20 years. The Port and the Fertiliser Jetty be issued as two separate units
Mtwara	Establish as autonomous unit of THA, with privatisation of Stevedoring.	Operate as autonomous Business unit under THA	Port be concessionned as one unit to a private operator for a period of 15 years
Bandari College	Close, and investigate alternative uses for premises.	Be leased out to operator on understanding that a certain portion of its training capacity would be assigned to THA	Be leased out to operators on the understanding that a certain portion of its training capacity would be assigned to THA.
Passenger Terminal and Lighter quay	Lease to a private operating company	The opportunity for redeveloping all or part of the area under Build-Operate - Transfer (BOT) be investigated.	The unit is concessionned to a private developer on Build-Operate-Transfer (BOT) arrangement for 15 years period.
Security, Fire & Safety units	Transfer responsibility to individual business units, and partly contract out.	Part of HQ services	Be considered as part of landlord structure
Small Ports	Not covered by the study	Conduct further study	Remain under the Landlord with the view of transferring to local authorities.

Source: THA Corporate strategic Plan 1997.

Appendix 8

Comparative Sources of Revenue and Expenditure between Landlord and Service Port

Revenues for Rotterdam 1990		Revenues for Singapore	
Port dues	62 %	Container handling	54.0 %
Rental income	33 %	Cargo handling	10.0 %
Other	5 %	Marine services	12.3 %
Total	100 %	Commercial services	11.7 %
		Sundry services	12.0 %
		Total	100.0 %
Source of expenditure for Rotterdam 1990		Source of Expenditure for Singapore 1990	
Personnel	13.65 %	Authority	89.4 %
Port maintenance	10.0 %	Subsidiaries	11.6 %
Other maintenance	10.1 %	Total	100.0 %
Depreciation	29.2 %		
Interest	33.8 %		
Other	3.3 %		
Total	100.0 %		

Source: Alderton, P. An analysis of change concerning ports and shipping.