PORT MANAGEMENT
ASSOCIATION OF EASTERN
AND SOUTHERN AFRICA

PMAESA

ASSOCIATION DE GESTION
DES PORTS DE L'AFRIQUE
DE L'EAST ET AUSTRALE

REPORT OF THE ECA/PMAESA/ECLAC WORKSHOP ON PORT COMMERCIALIZATION HOSTED BY KENYA PORTS AUTHORITY HELD IN MOMBASA, KENYA 28 TO 29 APRIL 1998

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ORGANISATION OF WORK

The national-level Workshop was hosted by Kenya Ports Authority at the Bandari College in Mombasa from 28 to 29 April, 1998. The Workshop considered documents which were presented by representatives of Kenya Ports Authority (KPA), Economic Commission for Latin America and Caribbean (ECLAC) and the Economic Commission for Africa (ECA).

ATTENDANCE

The Workshop was attended by participants from the following organisations:

Kenya Ports Authority
Kenya Association of Manufacturers
Kenya International Freight and Warehousing Association
Kenya Shipping Agency Association
Kenya Tea Development Authority
Tea Board of Kenya
Federation of Kenya Employers
Ministry of Transport and Communications
Ministry of Trade
Dockworkers Union
Export Processing Zone Authority
Investment Promotion Council
Economic Commission for Latin America and Caribbean
Economic Commission for Africa
Port Management Association of Eastern and Southern Africa

The full list of participants is attached as Annex V to the report.

OPENING OF THE WORKSHOP

The Workshop was opened by Mr. E.M. Guantai who read out an opening speech on behalf of Mr. Stanley K. Murage, Permanent Secretary, Ministry of Transport & Communications in Kenya. In his opening remarks he thanked the Workshop organisers namely: PMAESA, ECA, and ECLAC for bringing together most of the stakeholders and key players in the shipping industry in Kenya to participate in the Workshop. He also thanked the participants for allocating their

He emphasised to participants that ports have now to be guided by commercial principles of operations rather than socio-political needs, and also underlined that Kenya should be able to exploit her position by improving services to the hinterland.

He concluded his statement by asking participants to address themselves to giving the recommendations that would enable KPA to be fully commercialised as this would lead to better performance of the Port of Mombasa.

The Managing Director of Kenya Ports Authority Mr. L. Mwangola, welcomed the participants to the Workshop and expressed his appreciation to the Port Management Association of Eastern and Southern Africa, the Economic Commission for Africa and the Economic Commission for Latin America and the Caribbean for organising the Workshop. He underscored the importance of port privatisation as a major step towards the improvement of port operations in Africa. For effective achievement of successful port privatisation in Kenya, he informed participants that rigid rules and regulations which are undermining port performance must be removed. He appealed to participants to come up with concrete recommendations and implementation plan for port privatisation aimed at improving operations and enhancing efficiency in the port of Mombasa.

He concluded his address by asking participants to make proposals on specific areas of port activities which can be privatised.

The PMAESA Ag. Secretary General Mr. Alex Kabuga started his statement by welcoming all the Workshop participants, and informed them that the KPA Workshop is the third one following the first one conducted in Tanzania in July 1997 and the second one in Mozambique from 22 --24 April, 1998. He outlined the history of PMAESA and disclosed to the Workshop that PMAESA membership now stands at 17. He also informed participants about the projects which PMAESA has in the pipeline i.e. Data Bank for PMAESA ports, Indian Ocean Cruise Association and Memorandum of Understanding on Port State Control in the Indian Ocean area, etc. Regarding the theme of the Workshop he informed the participants that PMAESA member states are seriously contemplating changes in their structures and that some of them have commissioned studies on the subject of commercialisation/privatisation.

He emphasised that the changes taking place in many PMAESA ports are in line with global changes in the field of restructuring and will facilitate a breakthrough in monopolistic behaviour of many ports. He underscored the importance of partipation of many KPA stakeholders in the Workshop since there is urgent need for the formulation of changes that would lead Mombasa port into the 21st Century. He concluded his statement by thanking the Ministry of Transport and Communications and KPA management for facilitating the Workshop arrangements and wished the participants success in their deliberations.

In his remarks, read out on his behalf by the representative of ECA at the Workshop Mr. P. Were, the Executive Secretary ECA Mr. Y.K. Amoako thanked participants for their willingness to participate at the Workshop and also expressed gratitude to the management of the Kenya Ports Authority especially the Bandari College for all the efforts and successful arrangements made for Workshop. He outlined the background of the Workshop and highlighted problems which ports in Africa have been experiencing since the launching of the First United Nations Transport and Communications for Africa (1978 - 1988).

Regarding the objectives of the Workshop he appealed to the participants to pay special attention to major trends and strategic signals in international trade and the port industry and come up with a plan of action that would enable KPA to satisfactorily keep ahead with efforts in the port commercialisation programme which is already in progress. He further highlighted the programme of the Workshop and asked participants to carefully analyse sources of the issues which are frequently urgued as objections to put reform namely i.e. the transport of the public sector management to private interests; the socialisation of labour and privatisation of profits.

In conclusion, he called upon the participants to address themselves to all issues of concern with clear vision and mind and come up with clear recommendations in support of commercial activities already initiated by all those concerned for the efficient management and operations of the KPA.

The representative of the Economic Commission for Latin America and Caribbean (ECLAC) Mr. S. Rezende in his address to the Workshop, first conveyed a goodwill message to Workshop participants from Mr. Jose Antonio Ocampo, Executive Secretary of ECLAC. He underscored the importance of the Workshop and informed participants that the Workshop is not only limited to port privatisation but is also concerned with the economic and social development issues with special reference to ports.

He stressed that the Workshop approach is not a one-way communication as it is designed and based on dialogue among participants and also between lecturers and the participants. He concluded his address by drawing attention of the participants to openly address pertinent issues which hinder the chances of Kenya in joining the global economy.

ACCOUNT OF PROCEEDINGS

Adoption of Agenda and Election of Officials (Agenda Item 2)

The Workshop adopted the agenda as proposed and agreed that because of commitments of some participants in their places of work, the Workshop should

take two days i.e. 28 and 29 April. The acting Secretary-General of PMAESA was elected as moderator and Bandari College representative as the rapporteur.

Overview of Port Commercialisation in Africa (Agenda item 3)

Under this agenda item the representative of ECA presented a document entitled ***'Port Commercialisation in Africa: A chain of Interrelated Challenges (ECA/RCID/23/97)"*** which pointed out the port facilities which could be considered by KPA for privatisation. He defined the port commercialisation process and outlined the immediate objectives that KPA should consider during the privatisation exercise. He informed participants that some countries in Africa and Asia namely: Morocco, Tanzania, Mozambique and Malaysia have made their privatisation initiative: some of which could be borrowed and if found compatible with the local environment be applied by KPA. He, however, concluded his presentation by cautioning participants on the dangers of copying experiments from other countries without taking into consideration their difference in socio-economic and political environment.

The Workshop noted the report.

Port Commercialisation in Kenya (Agenda Item 4)

Presentation

A representative of the Kenya Ports Authority Mr. Gichiri Ndua presented a document to the Workshop entitled ***"Kenya Ports Authority Re-structuring Process"***. He outlined the history of KPA, its facilities and liberalisation efforts including the public sector reform programme set for Kenya. He informed the Workshop about the KPA restructuring strategy and outlined the content and recommendations. He concluded his address by highlighting the limited scope and impact of commercialisation already achieved in Kenya and made proposal for the way forward.

The full text of the report is attached as Appendix (c).

Discussions

It was observed that the KPA Act requires it to operate commercially and profitably. A legal government act (KPA Act) exists which clearly stipulates the administering of the port authority. It requires the authority to generate revenue and make a surplus, hence operating commercially. The KPA Act further empowers the authority to contract services of private experts where necessary. The Workshop should therefore address the causes of poor performance.

It was further observed that the Port of Mombasa is involved in both international and global trade, it must therefore offer services that are, competitive and respond to the market demands in respect of quality and mode of handling and provision of service.

Whereas the KPA Act adequately covers the role of the Minister, Board and Management, the port appears to be subjected to decisions which are not purely market driven and lacks autonomy in the management of its affairs due to socio-political influence.

Structural changes in ports (agenda item 5)

Presentation.

Ports have evolved from national to international industries. Their services cannot be considered independent from other distribution chain activities. Technologies are the birth certificates of port services because they determine those that can be offered, the markets in which they can participate and the institutional or regulatory framework needed. The regulatory framework can no longer give predominance to sociopolitical goals over those of a commercial nature. Market mechanisms and legal regimes must be joined to constitute a regulatory basis which controls the national economy instead of public-sector supervision.

The role of national maritime and port administrations has changed, too. On the operational side their influence is being reduced due to more private sector involvement. On the regulatory side more and more international agreements have to be taken into account. Yet, their relevance for the overall national economy may as well have increased because within a global economy efficient ports are ever more crucial for a country's economic growth. That growth needs trade – and trade needs ports.

Discussions

Points raised from the paper touched mostly on the purposes of a port, outlined from the members point of view, why the container was considered an enemy during the 1970's and the inevitability of modernising technology.

Private Sector Participation in Ports (Agenda item 6)

Presentation

The final beneficiary of private sector involvement in ports are a country's consumers and producers, including labour. The fundamental reason for private involvement in public-sector ports is to create a basis for competition so that costs might be reduced and the quality of services improved.

Competition achieves those objectives by compelling such ports and their workers to face commercial risks, the possibility of financial losses and the threat of bankruptcy. Government agencies operating a port do not have a profit motive, rather a much more relaxed incentive to comply with budgets, and they do not face the risk of bankruptcy. Governments must remove bureaucratic barriers to competition for the entire port community, permit management and labour to negotiate market-oriented labour agreements that respond to local commercial requirements and ensure antimonopoly regimes are equally applicable cargo owners, port investors and dockworkers. The efforts of public-port administrations to control costs are usually ineffective because they cannot demand commercial standards of behaviour from dominant groups such as port labour because Governments have isolated them from the market system of penalties and rewards.

Discussions

Members indentified major consequences of bureaucracy in port as:

Wrong appointment of Managers;
Withholding autonomy where required;
Delayed decisions for tariffs and investments;
Financial loses due to manipulation.

Where as the document presented identified three dimensions that create a basis for private participation in public sector ports (public outcry, political platform and competition) a fourth dimension was identified as donor community i.e. World Bank, IMF, European Commission, etc. The genuinness of this fourth dimension should be questioned.

Ports need the public sector to formulate rules and for environmental control, and the private sector for operational activities.

Members noted that out of the four Ghosts of Commercialisation i.e.

Transfer of public sector monopoly to private interests
Socialise losses and privatize profit
Elimination of the port labour movement
Transfer the sovereignty of the nation to the private sector or worse yet, to the private sector of another nation

The question of whether a private motive is viable in a public institution locally as is the case with Port of Singapore received a positive response, however a regulatory body must be instituted.

Accounting in ports solicited some argument with the KPA staff maintaining that the authority operates commercially and in theory can bankrupt. It was noted that KPA publishes its accounts as is required by its Act.

Members pointed out that the Act requires that the accountes are not just availed published to the public, and the ministry concerned should not raise tariffs to subsidise the Authority.

On this subject of privatisation team, members noted that there already exists in Nairobi a body, ESTU, in line with those of Dar es Salaam and Maputo. It was the feeling of the Workshop that, the Ministry of Transport should be better positioned to institute change rather than the ESTU body.

On concessions the period must be stipulated and a system of empowering the local personnel well land out. The hitch of the incoming investor training a potential competitor need be looked into. The example of Malaysia can be used to borrow their mode of Technology transfer.

On the institutional framework for private participation the progressive development of the private stevedoring in Mombasa, to private cargo handling companies to the public ports authority was discussed. Now there is the backward trend.

The question raised was on the Governments commitment to maintain an infrastructure of road/rail network where a private port development was willing to start a new port.

Labour Reform (Agenda Item 7)

Presentation

The port labour reform will succeed only if it is based on market mechanisms and, if Governments refrain from solving por tproblems by political means.

The determining factors for the labour reform relate to the technological progress which implies:

The intensive use of modern cargo handling equipment and facilities and the reduction of labour-intensive employment;

The introduction of open market economic policies and the advert of a global economy; and

The participation of the private-sector in public-sector ports.

The above changes require a new definition of social equity in order to minimise the social cost in terms of unemployment, port labour marginalisation and the improvement caused by retrenchment.

Discussions

The data on labour used to illustrate the market based labour reform was found to lack in reality as far as Kenyan Labour Satus is concerned. Also the variance in including casual labour when tabulating performance indicator in some countries and excluding casual labour in others should be standardised to total man hours.

Multi-skilling favour amongst members, however the workshop noted some degree of secrecy exist between management and labour which should not be.

Case Study in Port Commercialisation (Agenda Item 8)

Under this agenda item the participants were divided into groups and worked on a case study dealing with structural changes in ports.

Workshop Report Preparation (Agenda Item 9)

Under this agenda item the Workshop Secretariat prepared all the aspects of the Workshop report under agenda items one and summarised all the presentations covering all the three modules including discussions under each module.

The participants were divided into four groups and prepared recommendations covering deliberations under agenda items 4 to 7.

Adoption of Workshop Report (Agenda Item 10)

The Workshop discussed and adopted recommendations prepared by the four groups under agenda item 9.

Closing of the Workshop (Agenda item 11)

The Workshop was closed by Mr. E.M. Guantai, Deputy Secretary, Ministry of Transport and Communications. In his closing remarks he thanked the organisers of the Workshop namely PMAESA, ECA and ECLAC for all the efforts made to make the Workshop a success. He also expressed deep appreciation to KPA especially to Bandari College for the quality of the hospitality which the Workshop participants have enjoyed; and also for the excellent arrangements made for the

Workshop which has enabled participants to exchange views and come up with recommendations which his Ministry will consider as the basis for a plan of action to be prepared for the commercialisation of KPA.

A vote of thanks on behalf of participants was given by Mr. Peter Hughes, the Managing Director of Associated Vehicle Assemblers Ltd. He appreciated the renewed commitment to the task of improving KPA, and thanked the organisers and KPA for inviting the participants to the Workshop. He also welcomed the participation of the Ministry of Transport and Comunications in the Workshop and appreciated the new sense of dynamism and enthusiasm for the work ahead regarding the improvement of the performance of KPA.

ANNEX I

RECOMMENDATIONS

ECA/PMAESA/ECLAC
WORKSHOP ON PORT COMMERCIALIZATION
HOSTED BY KENYA PORTS AUTHORITY
HELD IN MOMBASA, KENYA

28 TO 29 APRIL 1998

RECOMMENDATIONS

A. Institutional Aspects

1. There should be sufficient political goodwill to respect the KPA Act as its contents are valid and are flexible enough to accommodate privatisation of selected activities of KPA.

2. Total privatisation of port facilities is not recommended but there is a need for privatisation of certain aspect of port operations.

3. The Government and the KPA should retain adminsitrative control and should continue to handle pilotage and security, services.

4. Privatisation is recommended for non-core activities such as bunkering services including supply of fresh water. Medical facilities should be privatised, however, the Bandari College should be commercialised.

5. In order to encourage private sector investment it is important that the Government be fully committed and do everything possible to create an enabling environment. In this regard unnecessary bureaucracy should be eliminated with particular regard to the control of transit goods and the role of various regulatory elements should be fully defined i.e. Customs, Port, etc.

6. A Shippers Council should be formed which would act as a watchdog and advisor to the Government on all shipping matters.

7. As a follow-up to the outcome of the Workshop the participants have strongly recommended that the Ministry of Transport and Communications should set up a steering committee as soon as practicable to prepare a plan of action for the implementation of Workshop recommendations.

8. The Workshop has proposed that the Steering Committee should be composed of the following organisations:

Ministry of Finance
Ministry of Public Works
Ministry of Labour
Kenya Association of Manufacturers
Representatives of Importers and Exporters
Federation of Kenya Employers
Kenya Railways Corporation
Dockworkers Union
Kenya Ports Authority

Dockworkers Union
Kenya Ports Authority
Kenya Revenue Authority

B. Operational Aspects

1. Kenya Ports Authority should privatise its stevedoring and shore handling activities at the port of Mombasa and remain as a landlord at the Port. In this regard local private companies should be given preference over foreign companies in being licenced to perform stevedoring and on-shore operations of the port.

2. A Kenya company should manage the container terminal on a CONTRACTUAL BASIS or a concession. Preference should be given to local investors with relevant experience. The concessionary would take over existing facilities and would be required to provide their own labour, machinery and equipment. A standard tariff would be operated which could be variable subject to KPA approval. KPA i.e in the tariff to be charged.. The company should have a share-holding of 30% Kenya Government through KPA, 30% institutional investors and 40% Kenya individuals having certain ceiling shares each. The company to have a Board of Directors in proportion to the shareholding.

3. The operations to be privatised include: shore-handling, stevedoring, storage, weighing, tallying, delivery and internal port security.

Labour Reform Aspects

1. Capital and labour are not in conflict at KPA. In fact labour is handicapped by the malfunctioning of basic handling equipment. At current throughput levels the labour establishment is just about right with regard to operational activities. In this regard the Workshop recommends that:

There is need for improved training, preferably multi-skilling, to improve productivity and to keep pace with new technological changes.

There is also urgent need for realistic work incentive schemes. However, bonus payments should be as much as possible be formalised. Taxes arising from this should be exempted.

Management should be empowered professionals and there should be fewer management layers.

Labour should be remunerated in accordance with the market.

The Dockworkers Union should be consulted from the outset in all the privatisation plans, especially if it concerns redudancies, lay-offs or retrenchments.

Early retiring personnel should be encouraged and counselled to form co-operatives that can do business with the port. This also applies to staff made redudant as a result of privatisation, etc.

Redundant staff should be offered retraining programmes, and redundancy compensation payments should be tied to the successful completion of these retraining programmes. Job placement agencies should be utilised to place redundant workers in other fields.

ANNEX II

PROGRAMME OF WORK

ECA-ECLAC

PMAESA

JOINT WORKSHOP PROGRAMME

ECA-ECLAC-PMAESA

Economic Commission for Africa (ECA)
Economic Commission for Latin America and the Caribbean (ECLAC)
Port Management Association of Eastern and Southern Africa (PMAESA)

PORT COMMERCIALIZATION: A PYRAMID OF INTERRELATED CHALLENGES

HOST: **Kenya Ports Authority (KPA)**
DATE: **28 to 30 April 1998**
PLACE: **Mombasa, Kenya**

PROGRAMME OF WORK

Day 1: 28 April 1998

08:00 - 9:00	**Registration of Delegates**
09:00 - 10:00	**Workshop Opening**
	- Introduction of Chairman
	- Opening remarks by the representative of Economic Commission for Africa (ECA) and Economic Commission for Latin America and the Caribbean (ECLAC)
	- Opening remarks by representative of Port Management Association of Eastern and Southern Africa (PMAESA)
	- Opening address by representative of Kenya Ports Authority (KPA)
10:00 - 10:15	Coffee/Tea Break
10:15 - 10:30	Adoption of agenda and election of officials

Day 2: 29 April 1998

08:00 - 10:30	Module Two: Private Sector Participants in ports Mr. S. Rezende (ECLAC Representative)
10:30 - 10:45	Coffee/Tea break
10:45 - 12:00	Module Three
12:00 - 13:00	Discussions of Modules 2 and 3
13:00 - 14:00	Lunch break
14:00 - 16:00	Drafting of Recommendations (Group work)
16:00 -16:15	Coffee/Tea break
16:15 - 17:00	Presentation of Recommendations
17:00 - 17:45	Evaluation and Closing of the Workshop

ANNEX III

STATEMENTS

OPENING SPEECH BY MR. STANLEY K. MURAGE, EBS
PERMANENT SECRETARY, MINISTRY OF TRANSPORT& COMMUNICATIONS
TO PORT COMMERCIALISATION WORKSHOP PARTICIPANTS
(28TH TO 30TH APRIL, 1998)

The Managing Director, Kenya Ports Authority Mr. Lenny Mwangola,
The Distinguished Representative of ECLAC, Mr. S. Rezende,
The Distinguished Representative of ECA, Mr. P. Were,
The Ag. Secretary General of PMAESA, Mr. A. Kabuga,
The Principal Bandari College, Mrs. J. Kahome,
Ladies and Gentlemen,

I would like to take this opportunity to thank the organisers of this Workshop, the Port Management Association of Eastern and Southern Africa (PMAESA), the United Nations Economic Commission for Africa (UNECA) and the Economic Commission for Latin America and Carribean (ECLAC) for organising this Workshop that brings together all the stakeholders and key players in the shipping fraternity of Kenya.

Secondly, I would like to thank all the participants for finding time from their busy schedules to attend this Workshop for the three days that they will be here. The importance of this Workshop does not need to be overemphasised especially at this time when the whole world is in a wave of change towards privatisation of most of the services that were hitherto offered by the government or government related institutions like Kenya Ports Authority.

We are all aware of the importance of ports and especially the role they play in national development not to mention regional development as in the case of our port of Mombasa which is a hub port in the region and its role in the regional development.

May be before I proceed further, I would like to ask one question. "Why is it that in the whole world there is at present a trend towards commercialisation of ports?" I am asking this because when you look at the ports in America, Japan, Europe and other parts of Asia, majority of their operations have gone into the private sector.

It is clear that communities all over the world have learned, through the hard way that efficiency of ports means cheaper goods for the hinterland it is serving as compared to goods passing through an inefficient port. When we talk of commercialisation, I would therefore understand in my own laymans port of view to mean a better performance for greater productivity of a port.

Ports in Africa, our own Mombasa Port included, have for long relied on government guidance on their operations and productivity. Time has come when these ports need to improve their operational performance and develop efficient mechanism and institutions for increasing their output. It is high time that the ports are guided in their operations by commercial undertakings rather than socio-political needs that has for long guided them.

In Kenya we can proudly say we are lucky because we have good infrastructure in the hinterland as compared to many countries in Africa. This means that if we improve our port performance, we can do much better than we are doing today because it will mean that our goods exported or imported from different parts of the world would reach their final destination faster than it is today and therefore we can easily realise a faster growth of the economy.

Distinguished delegates,
Ladies and Gentlemen,

Mine was only to open this important Workshop and not to give you a lecture. As I sit to listen to the experts in the field, I have one comment to make, "Whenever there is a wave of change even for the better, there is always resistant from the old guard who for some reason may have enjoyed an old style. I trust when the time will actually come for Kenya Ports Authority to be fully commercialised, a lot of us will not want to retain the status quo but support the change for better performance of our port and brighter economy.

I once again wish to thank PMAESA and all those who are involved in organising this important Workshop.

SPEECH BY THE ACTING SECRETARY GENERAL OF THE PORT MANAGEMENT ASSOCIATION OF EASTERN AND SOUTHERN AFRICA, MR.ALEX KABUGA AT THE OFFICIAL OPENING OF THE PORT COMMERCIALISATION WORKSHOP HELD AT BANDARI COLLEGE FROM 28TH - 30TH APRIL, 1998

The Managing Director, Kenya Ports Authority, Mr. L.J. Mwangola,
The representative of the Permanent Secretary, Ministry of Transport, and Communications, Mr. E.M. Guantai,
The representative of UNECA, Mr. Paul Were,
The representative of ECLAC, Mr. S. Rezende,
Distinguished Guests,
Ladies and Gentlemen,

On behalf of the Port Management Association of Eastern and Southern Africa (PMAESA) and on my behalf it is with great pleasure that I welcome you all to this important and auspicious Workshops on Port Commercialisation. As has been said earlier this historical Workshop is the brainchild of PMAESA and the United Nation Economic Commission for Africa (UNECA). Similar Workshops have been held at the ports of Dar-Es-Salaam (last year) and Maputo (last week).

Ladies and Gentlemen, for those who are new to PMAESA I wish to take this opportunity to enlighten you that PMAESA was established in July 1973 under the auspices of the United Nations Economic Commission for Africa (UNECA). It is a non-profit making and non-political organisation that currently boasts of membership from 17 countries in the Eastern and Southern Africa region spanning from Eritrea in the North to South Africa and Namibia in the South. The membership comprises port authorities and ministries of transport and communications in cases of land-locked countries.

Among the prime objectives of this Association is that of improving, coordinating and standardising operations, equipment and services of Ports and Harbours in the Eastern and Southern Africa region with a view of increasing their efficiency in relating to shipping and other forms of transportation.

Currently, the Association is undertaking several projects for the benefit of the members. This includes the establishment of a Data Bank at the PMAESA Secretariat, establishment of a Data Bank at the PMAESA Secretariat, establishment of Indian Ocean Cruise Association, a study on the dredging requirements of ports in the region which could lead to the establishment of a dredging pool in the region, a study on harmonisation of the structures of port tariffs in the region and the establishment of a Memorandum of Understanding on Marine Pollution in the Indian Ocean area, among others.

The idea of holding this Workshop started at the 22nd PMAESA I wish to take this opportunity to enlighten you that PMAESA was established in July 1973 under the auspices of the United Nations Economic Commission for Africa (UNECA). It is a non-profit making and non-polical organisation that currently boasts of membership from 17 countries in the Eastern and Southern Africa region spanning from Eritrea in the North to South Africa and Namibia in the South. The membership comprises port authorities and ministries of transport and communications in cases of land-locked countries.

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The idea of holding this Workshop started at the 22nd PMAESA Council meeting which was held in Khartoum, Sudan in 1996. During that meeting a very interesting paper entitled " **Disposition of Public Enterprises in Sudan"** was presented by Mr. Ali Ahmed Abdel Rahim who was for a couple of years the Chairman of Seaports Corporation of Sudan and at one time the Chairman of PMAESA. The paper outlined the various measures which were being adopted by the Government of Sudan to rectify the growing inefficiency of public enterprises. Some of these measures included divestiture from some public enterprises owing to their economic non-viability and inefficiency and inviting private sector participation in management of others which were seen as viable and strategic.

This presentation elicited a lot of interest from the member countries port authorities present. It transpired that most of PMAESA members were actually seriously contemplating some structural changes to their organisations and the way of doing business in order to boost efficiency of their ports. Some were actually in the process of implementing the changes while others like Mombasa had already commissioned studies to indicate which way to go. Arising from the foregoing and the interest shown by the members UNECA offered to arrange for some Workshops on Port Commercialisation to discuss this issue which is very pertinent to the efficiency of ports worldwide particulary in view of the changing trading patterns worldwide. Dar-Es-Salaam, Mombasa and Maputo were selected to pioneer these Workshops. This is why and how we are here this morning.

Ladies and Gentlemen, we in the port industry are in international business and the survival of ports, therefore, depend on the very readiness and ability of these ports to adapt and cope with the global business pressure. Due to the important and vital role the ports generally play in shaping and influencing trade and the economy in the countries served by the ports it goes without saying that ports in this region have to urgently come up with sound strategies and plans that will enable them to compete more successfully in highly competive international shipping industry.

Indeed the enormous changes that are now taking place in the commercial world means that ports in the PMAESA region have to work even harder to attain and maintain high standards of efficiency in their operations. There is, therefore, no room for complacency since the scenario calls for a re-examination of the way in which ports conduct their business vis-à-v is the prevailing environment. As we move into the next millenium, therefore, we need not only to create an environment of high productivity by having an in-depth understanding of the forecasts of world and regional trade, but in doing so the ports should also provide broader latitudes for complimentary growth among other ports.

Ladies and Gentlemen, in the previous years many public corporation in this region (ports included) were characterised by monopolistic behaviour and lack of competition. This is partly because initially they were established to support local economic development and act as a medium for equitable distribution of goods and services and in so doing they were expected to expand employment, improve income distribution and provide goods and services to the poor. However, the increasing inability of public corporations to do this has necessitated a move towards making them more supportive of the country's economic growth by being more responsive to market forces and hence more efficient. Hence the idea of commercialising the whole port industry particularly in the developing countries is thus a response to both global and interval pressures and trends.

I am sure that many of us here are familiar with the famous old Chinese dictum which states that **"Even a very long journey begins but with a single step"**. As far as PMAESA in concerned this is exactly what the ports in our region are doing today. They are taking the step towards re-structuring their ports in order to make them more efficient in the use of resources in the long run. It is important in this respect that we in the port industry shift our thinking to focus on issues in trade-oriented manner and come up with ways of re-orienting the entire spectrum of port services in order to operate in the most optimal and efficient manner.

Your presence in this Workshop, therefore, Ladies and Gentlemen is very important and encouraging since you are the major stakeholders in this industry. In addition there is a need to incorporate and accommodate all your diverse interests plans and strategies. More important however is that you are ready to do so when called upon by forums such as this. We all realise that it is only through close co-operation of all stakeholders in the port industry that can prepare the

ports in our region (Mombasa included) to move into the 21st Century well prepared to meet the numerous challenges ahead.

To conclude, I wish to take this opportunity to thank the Managing Director of KPA for his support both moral and material that has enabled the hosting of this important Workshop by KPA a reality. On behalf of PMAESA I say a big thank you for all the assistance and support we have received from KPA and for sparing time to be with us here today. On the same note I wish also to thank the Principal of Bandari College and indeed the staff of the College for working hard to ensure the successful hosting of the Workshop in this institution.

My thanks also go to UNECA for making it possible for Mr. Sidney Rezende from UNECLAC to travel to Mombasa from Santiago, Chile, to help us as a resource person in this Workshop. I believe Mr. Rezende's experiences in the field of Port Commercialisation in Latin American and Carribean countries will be useful to the deliberations of this Workshop.

Last but not least I would like to thank all the participants present here this morning for sparing time to attend this Workshop and share ideas with their colleagues on which way forward for Kenya's port and shipping industry.

Thank you and God Bless you!

INTRODUCTORY STATEMENT MADE ON BEHALF OF MR.K.Y. AMOAKO, EXECUTIVE SECRETARY ECONOMIC COMMISSION FOR AFRICA (ECA), AT THE OPENING OF THE ECA/PMAESA/ECLAC WORKSHOP ON PORT COMMERCIALIZATION HOSTED BY KENYA PORT AUTHORITY (KPA)

Mombasa (Kenya), 28 April 1998

Mr Chairman,
Distinguished participants and observers,
Ladies and Gentlemen.

On behalf of the Executive Secretary of ECA, Mr. Y.K Amoako, my colleagues of the Secretariat of the Economic Commission for Africa, and on my own behalf, it gives me great pleasure to thank you all for your willingness to participate in this first national workshop on Port Commercialization: A pyramid of interrelated challenges, which has been organised by ECA in collaboration with the Port Management Association of Eastern and Southern Africa (PMAESA) and our sister organization, the Economic Commission of Latin America and Caribbean (ECLAC).

Let me start this address by expressing my deep gratitude to the Management of the Kenya Ports Authority (KPA) for hosting this important workshop and also for the effective and successful arrangements made for the workshop. All efforts made by KPA to facilitate hosting of the workshop hosting are genuinely appreciated.

As you all probably know, how to assist African countries to accelerate their economic and social development is the business of the Economic Commission for Africa and its secretariat. The critical economic and social conditions in many of our African countries are primarily attributed to deeply rooted structural problems and inappropriate policies existent in the region.

I would first like to review briefly, for the benefit of all of us, the background to the workshop. You are all aware that the inefficiency of some of our transport institutions has been a major impediment to the economic development of our region. You are also aware that since independence most African countries have experienced a proliferation of parastatal organizations in all sectors of the economy and the transport sector has been no exception. The experience of ECA and the international community during the implementation of the First United Nations Transport and Communications Decade for Africa (1978-1988) showed that the major causes of the decline in the performance of the transport sector were the shortage of skilled manpower, rapid personnel turnover, poor management, inadequate maintenance of infrastructure, and poor policies and programmes for the development of the sector. Some of these weaknesses were identified at the beginning of the programme of the first Decade programme and with assistance from African countries efforts were made by the United Nations family and the international community to solve some of these problems.

Its is well known to all of you that ports in Africa have in the past depended on full state control. As a result, the region's port systems are far from responding as they should, to the demands of the economies they are serving. In many cases our ports tend to be obstacles to full integration of our economies, due to excessive bureaucracies, operational sluggishness, inappropriate technology and vested interests. If the economies of the region are to continue successfully along the road of export-led growth, it is essential to deepen the port reform and modernization which, in some cases, has already began in some African countries. As a contribution to this process, ECA consulted with ECLAC's International Trade, Transport and Finance Division, through its Transport Unit on how best to bring to Africa a course on Port Commercialization which ECLAC has been conducting in various South American and Asian countries. ECA further consulted with the various Port Management Associations in Africa and the consensus was that the workshop should be conducted in various African ports at national levels. In this regard the Eastern and Southern Sub-region was found to be ahead of other sub-regions because of the sub regional Ports Restructuring Seminar held in Dar-es-Salaam in December 1995 for eastern and southern African ports. ECA had no problems, therefore, to approach PMAESA ports to lead the way in hosting a series of national workshops on Port Commercialization. Kenya Ports Authority is the second organization from workshop on port commercialization following the one conducted for THA in July 1997 and Second one for Mozambique Ports and Railways (CFM) conducted last week in Maputo.

Mr Chairman

The workshop's primary objective is to provide information allowing participants to identify and understand major trends and strategic signals in international trade and the port industry, advocate a commercial outlook, and formulate an action plan for your port. This is mainly in response to the fact that ECA has already recognized that African ports are faced with major institutional problems. That is, the interface between governments ministries and ports organizations is somehow restrictive and port managers are unable to ensure operations were carried out on a commercial basis. It has also been recognized that even those African port Authorities which posses modern port management techniques are unable to achieve commercial goals because the regulatory framework under which they are operating either give priority to socio-political objectives or permit dominant groups to exercise a monopoly over some specific aspects of port operations. It is known to you all that African Governments have traditionally assumed the responsibility to provide port infrastructure and cargo-handling equipment. But the outcomes of recent studies conducted by ECA indicate that a number of countries have undertaken or are considering institutional reforms in their ports to create a basis for commercialization as a factor for cost reduction, improvement of services, increased efficiency and a source of financing for new port developments.

Mr. Chairman

This leads me to the highlights of the agenda for the workshop. The workshop will start with presentations and discussions on how far the Mozambique Ports and Railways has gone with port commercialization. This will be followed by an ECA presentation on an overview of port commercialization activities in Africa. Presentations on the experience in South America in port commercialization will begin with the first module of the workshop which covers essential structural changes required if ports are to function not as entities apart, as has been the traditional, but as integrated links in the chain of production, export and trade, conceived as a single system.

By considering and answering ten questions, participants will be invited to visualise how ports will operate in the year 2010. The module goes on to discuss the service offered by ports, the functioning of markets in a global economy, the intermodal integration of different activities in a distribution chain, technological changes and institutional and regulatory framework for international trade. Particular emphasis will be given to the distribution of responsibilities between the private sector and the state-management, on one hand and regulation on the other, while traditional arguments in favour of state participation in the port industry for reasons of economic security, the generation of employment and national defence, will be questioned.

Commercialization/private participation is the subject of the second module for the second day of the workshop. The session will begin with an analysis of factors impelling initiatives to reform the port system-including public outcry against high costs, pilfering and other kinds of inefficiency- and of competition as a factor tending to encourage efficiency. The four "ghosts", or presumed effects of commercialization/privatization which are frequently urged as objections to reform, will also be examined. These are: the transfer of the public sector monopoly to private interests; the socialization of labour losses and privatization of profits etc.

The last and third module of the workshop to be presented for discussions on the final day of the workshop, will be devoted to labour reform. It will be shown how this is inevitable, due to technological change, macroeconomic policies, and the advent of a global economy and private participation. The costs of reform in terms of job losses and social deterioration must be recognized and faced, by means of retaining, the creation of new jobs and the redefinition of the concept of social equity in terms of opportunity.

The workshop will finally analyze and discuss a case report with the objective of elaborating a specific action plan on port commercialization for Mombasa Port.

Mr. Chairman,

Distinguished Participants,

These are the issues which call for your attention during the three days of the workshop. I am convinced that you will address yourselves to them with a clear mind and vision and that at the end of your workshop you will have progressed further in your gigantic effort to prepare a Plan of Action on Port Commercialization that will not only be realistic for KPA to consider but will also contribute in no small measure to the realization of the goals and objectives of efficient port management and operations in Kenya.

I wish your workshop every success

OPENING REMARKS MADE BY SIDNEY REZENDE, ECLAC AT THE ECA/PMAESA/ECLAC WORKSHOP ON PORT COMMERCIALISATION HOSTED BY KENYA PORTS AUTHORITY

The Permanent Secretary, Ministry of Transport and Communications,
The Managing Director, Kenya Ports Authority,
The Ag. Secretary General of PMAESA,
Distinguished participants,
Ladies and Gentlemen,

First of all, I would like to convey on behalf of ECLAC's Executive Secretary, Mr. Stanley Jose Ocampo, his best regards to all of you and his best wishes for a very successful Workshop.

Secondly, I would like to thank each and everyone of you for being here today to participate in this Workshop, and our expression of appreciation to Kenya Ports Authority for hosting this event.

Dear Colleagues,

The issues to be discussed in this Workshop are not limited to how to improve the use of sea ports or how their operations are privatised. It is more extensive than that. Our training programme is mainly concerned with the economic and social development issues in a very dynamic international context. Some of these issues are:

- How to become more competitive at international level;
- How to redefine the boundaries between the action of the public and private sectors;
- How to modernise the employer-employee relationship.

All of these topics are difficult to deal with, some are sensitive, others are controversial, and they do not permit any ready-made recipes or prescriptions on what and how to do it. These issues form part of a very fruitful debate in various regions of the world and have demonstrated a very important progress and achievements in numerous countries.

The Workshop also allows us to come in contact with local and regional personalities, receive different points of view, impressions and reflections, all of which certainly enrich our own work.

The approach we use in presenting these Workshops is not one-way communication, by which we quantify things and transmit knowledge. Some type of awareness on the parameters around the main topics and its ramifications is built up through a dialogue among ourselves and yourselves.

All of these elements represent a fundamental part of a combined reflection process, which tends to clarify ideas in order to advance. But, it should not be a reflection process just for the sake of reflection, as it may have a positive impact in public policy, with the main purpose being the improvement of services in sea ports as part of a very extensive chain in which, if any link of this chain fails, it reduces the chances of our countries to effectively join the global economy.

Thank you.

ANNEX IV

KENYA PORTS AUTHORITY
RE-STRUCTURING PROCESS

KENYA PORTS AUTHORITY: RE-STRUCTURING PROCESS

A paper presented during the Port Commercialisation Workshop 28to 29 April 1998, Bandari College, Mombasa.

Introduction

1. The Port of Mombasa is the Principal port of Kenya and serves other hinterland countries of Uganda, Rwanda, Burundi, Eastern Zaire, North-Eastern Tanzania, Southern Sudan and Somalia. It is wholly-owned by the Government but managed and operated by Kenya Ports Authority (KPA) - a State Corporation. It is a "comprehensive" (service) port - the Port Authority provides almost all the services to vessels and cargoes.

2. Between 1992 and 1997, total port throughout rose by 1.08% per annum from 8.00 to 8.44 million tonnes. During the same period, containers handled through the port rose from 135,324 to 230,698 Twenty-Foot Equivalent Units (TEUs) - a growth rate of 11.26%. Containerised traffic which is part of the foregoing total throughout on the other hand, proxied by full containers, increased from 106,645 to 172,738 TEUs - a growth rate of 10.13% per annum.

3. Transit traffic-sea borne trade to and from other hinterland countries rose moderately from 1.21 to 1.37 million tonnes between 1992 and 1997: an annual growth rate of 2.06%. However the share of this traffic remained almost unchanged: 15.12% in 1992 and 15.91% in 1997.

Port Facilities

4. The port has sixteen (16) deep water berths of which three (3) are dedicated container berths backed up by 55 acres of container yard.

5. There are two (2) oil jetties one for refined oils Shimanzi Oil Terminal (SOT) and the other for crude oil products Kipevu Oil Terminal (KOT). There is cement loading facility at Mbaraki Wharf where coal, clinken and fluorspar are also handled. A further cement loading facility is situated at English Point somehow opposite the Old Port. The port has a dry dock and runs its own training college - Bandari College.

6. The old port which serves dhows on coastal trade and the outpost port of Lamu are other coastline installations where KPA has established presence. Also managed as part of the port of Mombasa are the Inland Container Depots (ICDs) in Nairobi and Kisumu. The ICD at Eldoret even though structurally completed is yet to be commissioned and KPA is at advanced stages of exploring the possibilities of leasing it out to a private sector operator.

7. Other complementary facilities include a wide catalogue of port equipment for handling various categories of cargoes, storage/transit sheds, open storage areas, cold store, workshops, office blocks, bunkering pipeline, fire station, pilot, anti-pollution, mooring and security boats, tugs, anchorage buoys, navigational aids, flood light installations, perimeter wall and fences, internal rail trucks and roads, vehicles, banking and postal facilities, police post, immigration and customs facilities and facilities for other regulatory bodies.

8. Added to the foregoing capital stock is the well protected deep sea harbour and reasonably safe and secure approach channel. The port Authority has also a pool of well trained and skilled labour force.

Port Services

9. Port Services to both cargo and ships are predominantly provided by the Port Authority. However, there is a limited involvement of the private sector in the provision of bagging services for bulk grains and fertilisers. Three companies are privately contracted by the shipping industry to provide the services at the quay side. When the companies provide vac-u-vators however, the port Authority pays them for this service which they quite frequently provide.

10. An important development in the handling of bulk grains and may be fertiliser is the fact that KPA has granted a land lease to a privately owned company, Grain Bulk Handlers Limited, and further entered a Way Leave arrangement with the said company that is developing modern facilities for handling bulk commodities. This company is expected to be operational by the year, 1999.

11. Private companies are also involved in the provision of bunkering services to ships as much as ship chandling and husbandry are provided by third parties. There are incidences also when fresh water supply is delivered by the private sector.

12. The many oil marketing companies own their individual pipelines and storage tanks while the Kenya Pipeline Company owns the pipeline for the crude oil right from the KOT.

13. Magadi soda company has leased a storage shed from KPA and also leases the conveyor when it is loading bulk soda ash. Bamburi Portland Cement Company owns the land-side storage installations at both English Point and Mbaraki Wharf.

14. Other services, pilotage, towage, shore handling, stevedoring, storage, tallying, security/surveillance etc. are provided by the KPA. There are however some contractors who provide tallying services to the shipping fraternity. In all cases they work in tandem with those supplied by the Port Authority.

15. Furthermore, and even though occasionally, the port hires equipment especially for "heavy lifts" from outside the port. In the recent past the port has been hiring from outside the port front loaders for handling containers. The port does not own a dredger even though it undertakes some maintenance dredging.

Liberalisation

16. In the last decade or so economic, social and political liberalization has assumed wide and varying proportions. In the developing world in particular, less openness has been considered and taken as one of the proximate determinants of underdevelopment. Subsequently vast amount of energy and resources have been committed towards the creation of an enabling environment that will facilitate greater transparency and accountability.

17. Consciously or otherwise greater openness has rightly or wrongly been associated with increased market participation and the attendant private sector involvement. It has been argued that government has no business in doing business. I wish to add here that government has business in doing its business. However the government would be equally gratified to conduct its business in a competitive market environment. I further observe that the widely held view that in some regards, the foreign assistance we receive in the form of aid would be more beneficial if there were no "strings attached" - it would have been more cost-effective if it was sourced from the "market".

Public Sector Reform Programme

18. In the early 1990s, the Government of Kenya committed itself towards greater private sector involvement. This it did through the implementation of a comprehensive Public Enterprises Reform Programme. The overall aim was to:

- Enhance the role of the private sector in the economy. In some regards this required the creation of a more level playing field by eliminating preferential treatment.

- Reduce the demand of the Public Enterprises on the Exchequer so as to improve the use of Kenya's scarce resources.

- Reduce the role and rationalise the operations of the public enterprise sector.

- Improve the regulatory environment. This requires elimination of conflict of interest between the regulatory and commercial functions of some public enterprises.

19. The Public Enterprise Reform Programme recognised that there were basically two aspects, privatisation and restructuring.

20. The restructuring programme falls in the armpit of the Department of the Government Investment and Public Enterprises. It is confined to the restructuring of strategic state corporations which are to remain in State hands. Kenya Ports Authority is such one state corporation.

Port Commercialisation

21. The operations of Kenya Ports Authority (KPA) are governed by the KPA Act of 1978 that recognised the need for commercial principle and consequently directed that KPA operates so. Evidently KPA has operated commercially but the important question is not whether it has recorded positive operating margins but whether in so doing the deployment of resources was optimally done. Secondly, in situations where the product is a social good, was the "supply price" efficiently determined or if a social "cost" was it once again the most efficient.

22. Subsequently what is apparent with regard to the KPA is that the government is more keen on better utilisation of ressources and the resultant efficiency which is a necessary pre-condition in fuelling the export led-growth. Towards this, the governement seems to have realised the need to actuate the "commercial" principle which is enshrined in the KPA Act of 1978 but which in the light and spirit of the present day thinking would appear to be some steps shorter. In the short term however, this appears to be the government's preference.

23. Against the foregoing background and within the general framework of economic liberalisation, Kenya Ports Authority was classified as one of the five (5) sttrategic State Corporations. However the need for institutional restructuring so as to actuate the commercial principle was underscored by a study that was commissioned by the government, carried out and concluded towards the end of 1995 by Hickling Corporation - Kenya Ports Authority Restructuring Study November, 1995.

24. The way forward for KPA is commercialization within the limits of an understandable natural monopoly. It basically must therefore address the issue of "competitive" supply of a service. Essentially the Authority must endeavour to satisfy itself that it is operating optimally. This is firstly because the port is in competition with other regional and international ports. Secondly, the development that the Kenyan economy has adopted is that of export-led as opposed to import substitution which it hitherto pursued. Consequently relative factor prices of all exports have become the single most important determining factor on how much and fast the economy grows.

25. Furthermore whereas high import prices should ideally lead to lower volumes of quantity demanded this unfortunately is unlikely to be evident in the Kenyan case. Though not qualified to be necessities, the type of imports that are transacted by Kenyans are near necessities, imported raw materials, spare parts, petroleum products, etc. products with low income elasticity of demand thereby implying that if they are not imported, industries might grind to a halt. And sadly enough most

of the Kenyan manufacturing plants are dependent on imported raw materials. Paradoxically even some of the export-oriented manufacturing industries are anchored on imported raw materials - most cotton, yarn, dye, etc. that are used in firms that export textile and textile products are imported. It is therefore imperative that the cost of such products should be kept at the minimum.

26. It is also in the interest of the Authority to deploy resources in the most efficient manner. This would release less efficiently utilised resources for deployment elsewhere. Furthermore by so doing, the Authority would be able to requisition for services from specialised professional and skilled industries that enjoy economies of scale of the products they supply. It, for instance, makes good business sense for KPA to take its carpets and curtains to established launderers and dry cleaners as opposed to creating its own dry cleaning/laundering department that may not be fully occupied throughout the production horizon.

27. The foregoing portends that there is serious need of re-examining and evaluating the various activities that KPA undertakes and performs and find out whether they are produced in the most satisfactory manner or there is some reorganisation that can lead to better and may be cheaper product. In a sense KPA has to clearly delineate and delink itself from the supply but not consumption of some of the goods and services that are not within the nerve centre of its business - providing an interface between seaborne cargo owners and the carriers.

28. As an enveloping agency, KPA must within its docket strive to facilitate international and even national maritime trade in the most efficient manner. Reduction of cargo dwell time in the port and minimization of ships working time in the port are the two very noble objectives on which other sub themes can be derived of deduced, however, these in themselves do not translate into the KPA ensuring that the cargo takes minimum time in port while ships take least working time.

Kenya Ports Authority Restructuring Study

29. In line with the global trend in the maritime industry and in the light of national interest, the Government, through the Department of Government Investments and Public Sector Enterprises, Ministry of Finance commissioned Hickling Corporation of Canada as the lead consultants on the "Kenya Ports Authority Restructuring Study" in February, 1995. This Study which was concluded and submitted in November, 1995 was essentially mean to study the likely causes of low productivity at the port and consequently recommend plausible solutions that could lead to timely higher productivily levels.

Scope of the Hickling Study

30. The Hickling Report is a conclusion of a study on five modules namely:

- Corporate Governance

- Performance Contract
- Tariffs
- Equipment Maintenance
- Role of the Private Sector

31. An earlier fifth module was undertaken by Coopers and Lybrand and addressed Manpower Rationalisation. This module concluded that KPA is overstaffed and recommended a lean Authority employing some 6000 people by year 2000. However, the method they recommended for funding their proposed and recommended retrenchment scheme was not endogenously self-sustaining. In entailed disposal of some of the less productive fixed assets.

32. The first module, on Corporate Governance, examined the statutory provisions of the enabling legislation, the Kenya Ports Authority Act (KPAA), State Corporation Act (SCA) and subsidiary legislation, other legislation affecting KPA, Treasury guidelines and circulars from the Office of the President.

33. The second module, on the Performance Contract, defined the relationship between GoK and KPA including agreed actions for commercialising the KPA and established appropriate performance indicators based on agreed key objectives.

34. The third module on Tariff Review and the formation of a Regulatory Body, reviewed current regulations relating to tariff revision and the existing procedures of dialogue between KPA and user community in relation to tariff setting.

35. The fourth module, on Equipment Maintenance, reviewed the current state of maintenance of KPA's equipment and the constraints experienced in attaining high equipment availability. It also evaluated all aspects of the existing maintenance contracts signed by KPA and prepared model equipment maintenance contracts.

36. Module six, on the role of the private sector, evaluated the potential for private sector participation in the provision of various port services, including stevedoring, equipment maintenance, Kenya Ferry Services, and Kenya National Shipping Line.

Partial implementation of the re-structuring programme

37. Arising from the recommendations of the Hickling Report, the Government and Kenya Ports Authority signed a Performance Contract in August, 1996. Another contract on operation and management of the Mombasa Container Terminal was signed between the Felixstowe Port Management Consultant Services Ltd. (Felixstowe) on the one hand and Kenya Ports Authority on the other.

38. Owing to some legislative entanglements, the Performance Contract is yet to be effective while the contract with the Felixstowe fell through towards the end of 1997 - barely after one year even though the contract was initially supposed to last two years. The prime reason why the Felixstowe could not carry on with the

contract was reportedly due to problems related to low levels of equipment availability at the Mombasa Container Terminal.

39. KPA was amongst other state corporations, exempted from the State Corporation Act in 1996 but this has had little impact because it was not complemented by the amendment of KPA Act which would empower the Board of Directors and management by according them the necessary autonomy and subsequent "freedoms" that would enable them to carry out the functions and activities of KPA in a free market-like manner.

40. KPA re-negotiated its earlier (1994) ten year-term equipment maintenance contracts for floating crafts and some yard equipment. These were limited to two-year term with the necessary guarantees for performance and penalty clauses for non-performance.

Restructuring: Its Limited Scope and Impact

41. At this juncture and before I dwell on any specifics, there are some few observations that I wish to make:

- Restructuring of the Port industry in Kenya requires adherence to commercial principles and does not imply privatisation per se.

- Increased and emerging private sector involvement in the provision of the hitherto port services will rely mostly on the expertise that exists - this expertise is embodied mostly in you managers who are assembled here today.

- The Restructuring process must involve other actors that complement port services. I have in mind such agents like Kenya Revenue Authority, Kenya Railways Corporation, etc. This is because a system approach will have better synergies due to the interdependence of the intermodal transport and international maritime trade in general.

- Increased port productivity is very necessary so as to prop and propel industrialization process in Kenya and in the greater prot hinterland.

Programme of action

42. The most immediate actionable path that we find plausible and appropriate is through "pilfering" out some of the services that are non-core and that the Authority continues to provide. If the Authority sheds off some of these responsibilities, it will lead to the next desirable dimension of a leaner organisation. However to be able to pursue this double prong issue which has higher immediate real cost implications but medium term productivity benefits, the Authority must as a matter of policy decide to voluntarily retire some sizeable number of people through some mild inducement.

43. Some of the fields in which the Authority feels that there is enough competence and it can contract out some of its activities and consequently freeze or drastically reduce its role to purely supervisory are in:

- Maintenance:
  - Motor Vehicles
  - Appliances
  - Residential quarters
  - Forklift trucks
  - Telecommunications
  - Air Conditioning
  - Equipment
  - Cargo handling gears
  - Marine Crafts
  - Port roads
  - Port permanent way
- Operations:
  - Manufacture of pallets
  - Bus Commuter services
  - Staff Cars
  - Cleansing/sanitary care
  - Medical facilities
  - Port security guards

Way Forward

44. I know there are some other areas where we can move fast and be cost-effective. I do not, however, want to pre-empt or prejudice discussions in such areas. I nevertheless hasten to add that we must be prepared to embrace change and think positively about it. We must position ourselves to serve this country better by facilitating our exports to compete effectively in the world markets and ensuring that imports are less expensive. We may need to borrow or modify what others have done. We can even homegrow our solutions. It is this evaluational ability and capability that we are seeking to enhance today.

45. In conclusion let me say that it is the intention of the government to transform the port of Mombasa from a service port through, may be tool port to a landlord port. This as you may realise is not an easy process and can only be undertaken if successive implementation programmes lead to greater national benefits without compromising social goods and costs. We must therefore play a significant role in ensuring that whichever project we undertake, it is consistent with greater private sector involvement and enhances competition with the attendant increased productivity and effecient resource utilization.

ANNEX V

LIST OF PARTICIPANTS

LIST OF PARTICIPANTS AT THE PORT COMMERCIALISATION WORKSHOP HELD AT BANDARI COLLEGE – 28 – 29 APRIL, 1998

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