How to Push Efficiency Enhancing Reforms at the Port of Dar Es Salaam?

by Jacques Morisset, Charles Moret, and Julie Regolo

The port of Dar Es Salaam, the second largest in East Africa after Mombasa, is one of the least efficient on the planet, hindering trade and economic expansion not just for Tanzania but also for neighboring landlocked countries. The cumulative delays at anchorage and dwell time can exceed 20 days, while international standards are around 3-4 days. In addition, official and non-official payments are high and prevalent. These inefficiencies are well known and mitigating them has been a priority in recent national strategies. However, the implementation of necessary policy reforms and investments has been slow and inadequate.

The lack of enthusiasm for reforms is explained by the asymmetric distribution of benefits and costs associated with the current inefficiency of the port. While gains are concentrated in the hands of a few well-connected players, costs are diffused among multiple consumers, firms, and households across the country. Other contributing factors include the lack of awareness of costs by most consumers and firms, the unequal distribution of these costs, time inconsistency between costs and benefits associated with reforms, and the lack of coordination for decisive actions. These basic lessons of political economy help not only to understand why the port of Dar Es Salaam has remained underperforming but also offer new directions on how to encourage the faster implementation of efficiency enhancing reforms.

The Port of Dar Es Salaam is inefficient but how bad is it?

Today, about 90 percent of Tanzanian trade transits through the port of Dar es Salaam. This port is also a hub for the international trade of East African landlocked countries such as Zambia, Uganda, DRC, Rwanda and Burundi with the rest of the world. But to what extent is the port of Dar Es Salaam efficient in moving goods in and out the country? How does it compare to other ports in the region, notably Mombasa?
Efficiency for a port is to facilitate trade of merchandise in and out of the country at the lowest costs and as fast as possible. For imports, these include the following chain of operations: (i) anchorage; (ii) berthing; (iii) merchandise unloading; (iv) customs clearance, and (v) exiting the merchandise from the premises. The chain is simply reverse for exports. The more cost-efficient the port is in handling these operations, the lower the costs for importers and exporters and greater the benefits for the economy.

The performance of the port of Dar es Salaam has varied over time. As a result of privatization in the 1990s, the port became one of the most efficient in Sub-Saharan Africa, but its performance deteriorated gradually up to mid-2000s and efficiency is now low despite renewed efforts of the port authorities to implement reforms aiming to accelerate operations like establishment of an electronic single window system and facilitation of direct delivery of cargo.

Lack of efficiency can be measured by the extra delays and payments that shipping companies or traders have to deal with in the port of Dar es Salaam in comparison to those they would face in the port of Mombasa. The main symptoms of the port inefficiency are long delays, first at anchorage, and second in the series of operations necessary to exit merchandise from the port (the so-called dwell time). Port tariffs are also much higher than in Mombasa. For the five operations described above, the total cumulated costs of extra delays and additional monetary payments compared to Mombasa are equivalent to a tariff of 22 percent on container imports and about 5 percent on bulk imports (see Table 1). For energy imports, which make up 35.5 percent of total imports, the tariff equivalent of extra delays and fees on liquid bulk could be as high as 37 percent. Inefficiencies for exports, however, are low due to limited custom process related congestion and cheaper freight rate that outbound cargos face.

Table 1: Total additional costs due to the inefficiency of the port compared to Mombasa (USD per ton or indicated)\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Bulk</th>
<th>Container</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Imports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct monetary costs</td>
<td>11.4</td>
<td>16.2</td>
</tr>
<tr>
<td>Cost of waiting at anchorage</td>
<td>8.6</td>
<td>57</td>
</tr>
<tr>
<td>Cost of storage in the port</td>
<td>None(^2)</td>
<td>5.40</td>
</tr>
<tr>
<td>Inventory cost</td>
<td>3.4%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Tariff equivalent (total)</td>
<td>5.2%</td>
<td>21.7%</td>
</tr>
<tr>
<td><strong>Transit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct monetary costs</td>
<td>7.9</td>
<td>13.9</td>
</tr>
<tr>
<td>Cost of waiting at anchorage</td>
<td>8.6</td>
<td>57</td>
</tr>
<tr>
<td>Cost of storage in the port</td>
<td>None</td>
<td>2.8</td>
</tr>
<tr>
<td>Inventory cost</td>
<td>3.4%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Tariff equivalent (total)</td>
<td>4.9%</td>
<td>22.8%</td>
</tr>
</tbody>
</table>

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1 The tariff equivalent is computed as the sum of the direct monetary costs, the cost of waiting at anchorage and the inventory cost, based on an average value of USD1'358 per ton for container exports and USD1'137 per ton for dry bulk imports (TRA).

2 For bulk imports, direct delivery has become the norm. This means that the vessels cargo is directly loaded into trucks for onward delivery to the receiver and therefore there dwell time is minimized.
The first delay faced by shipping companies is the time at anchorage. As of May/June 2012, container vessels were queuing for 10 days on average (up to 25 days) waiting for a berth in Dar es Salaam, while the waiting time was less than one day in Mombasa (see Table 2). This delay was mainly explained by the congestion at the berth due to non-adapted unloading equipment, e.g. slow crane movements (14 MPH against 18 MPH compared with Mombasa) and sub-optimal call sequencing of vessels (first come, first serve). It has to be noted that bulk imports were indirectly affected by the long waiting time for containers vessels, since conventional berths have become increasingly congested due to the relocation of several container services in the TPA conventional terminal. Waiting time at anchorage then also reached an average of 4.5 days for dry cargo whereas it is null in Mombasa.

The second delay for container imports is dwell time since on average it was taking 10 days for unloading merchandise, clearing and exiting it from the premises in mid-2012. The delay for transit in 2012 was equal to 17 days on average. By comparison, it takes about 3-4 days in Mombasa and only 48 hours in many East Asian ports. These average figures mask significant variations in delays, not only by type of transactions (unfortunately the detailed information is not yet available) but also over time. For example, the average dwell time in the TPA terminal was as low as 5 days in October 2011, while it exceeded 23 days in February 2011. These variations are surprisingly not correlated to the traffic volume whereas one could expect to observe a longer dwell time in period of intense activity due to congestion (second half of the year).

Excessive dwell time at the port of Dar es Salaam is due to slow custom clearance and excessive storage periods. Customs clearance seems to deteriorate, or at least vary significantly over time, as only 24 percent of declarations were cleared in 24 hours in April 2012 (against 87 percent in February 2010). Long storage periods are partly explained by lengthy customs clearance procedures, low storage fees, inadequate inland container depots (ICDs) and congestion at the gate of the port. On top of excessive delays, shippers in the port of Dar es Salaam have to pay higher fees than in Mombasa to port operators and agencies for their services. The official port fees are on average 74 percent higher in Dar es Salaam than in Mombasa, principally as a result of higher wharfage charges, which are proportional to the merchandise value while they are flat fees in Mombasa. The total extra direct monetary cost is approximately USD 16 per ton for container imports (USD 11.1 per ton for bulk).

These inefficiencies in terms of extra delays and financial surcharge in comparison to Mombasa are equivalent to an additional tariff of 22 and 5 percent respectively on container and bulk imports. However, these costs do not include the unofficial payments paid by shippers and clearing agents, which are likely to be significant in the port of Dar es Salaam. If corruption is a source of inefficiency, it is also the direct result of existing inefficiencies where non-official payments become necessary to speed up or go around the existing process.

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3 Source TPA

4 Contrary to West Africa where several ports are in proximity, vessels cannot go to a neighboring hub port to discharge their cargo. In other words, their options is to wait or not to come to the port of Dar es Salaam, both having significant costs for importers and the local economy.

5 Based on TICTS and TPA data, the average local container dwell time in 2011 was 9 days in the container terminal and 15 days in the conventional terminal, which gives an average of 10 days for the port once weighted by their market shares in the container traffic.

6 The firing of key TPA officials by the Minister of Transports on corruption charges in September 2012 and recent surveys indicate that TPA and TRA – two of the main public operators in the port - are certainly among the most corrupted agencies in Tanzania (National Survey on Governance and corruption, 2009).
Table 2.: Comparison of port efficiency for containers between Dar es Salaam and Mombasa.

<table>
<thead>
<tr>
<th>Indicators:</th>
<th>Waiting time at anchorage</th>
<th>Cargo dwell time</th>
<th>Gross berth productivity</th>
<th>Cost/price for shipping companies</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unit</td>
<td>days</td>
<td>days</td>
<td>USD per TEU</td>
<td>USD per TEU</td>
</tr>
<tr>
<td></td>
<td>Dar Es Salaam</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>none</td>
<td>6</td>
<td>14</td>
<td>118.2</td>
<td>263.0</td>
</tr>
<tr>
<td>Imports</td>
<td>10</td>
<td>10</td>
<td>14</td>
<td>118.2</td>
<td>366.8</td>
</tr>
<tr>
<td>Mombasa</td>
<td>Import transit</td>
<td>10</td>
<td>17</td>
<td>118.2</td>
<td>320.0</td>
</tr>
<tr>
<td>Exports</td>
<td>0</td>
<td>4</td>
<td>13</td>
<td>128.9</td>
<td>150.0</td>
</tr>
<tr>
<td>Imports</td>
<td>0</td>
<td>4</td>
<td>13</td>
<td>128.9</td>
<td>150.0</td>
</tr>
<tr>
<td>Import transit</td>
<td>0</td>
<td>9</td>
<td>13</td>
<td>128.9</td>
<td>132.0</td>
</tr>
</tbody>
</table>

Note: These figures have been collected during a field mission in May/June 2012 with the collaboration of the main port operators (TPA and TICTS) and interviews with several port users (see references).

Using the rent-seeking approach of corruption, the magnitude of this phenomenon within the port of Dar Es Salaam can be illustrated by estimating how much an importer would be ready to pay to reduce delays. In principle, an importer with a merchandise value of USD 1358 per ton would be indifferent to pay up to USD 17.4 per ton to speed up the process of its container by one day. This amount is equal to the cost associated to one more day of waiting time. (For bulk, an average of USD 1137 per ton will be equivalent to USD 10.6 per ton for one day less of waiting time).

One way to illustrate the potential corruption in the port is to examine the variations in the valuation of import invoices at customs. Data from the Tanzania Revenue Authority (TRA) reveal that the custom values associated to a set of relatively homogenous goods varied significantly in 2011. For example, the value for one kilogram of imported fertilizer ranges from USD 0.39 to USD 5 per kilogram, while the world price is around USD 0.6-0.8 per kilogram. The ratio between the highest and lowest reported price was 152 and 33 for rice and palm oil respectively. While variations in values of imports are to be expected due to changes in international prices and in quality, such orders of magnitude may reflect poor reporting or suspicious behavior by TRA.

The Cost of Inefficiency: Winners and Losers of Perverse Incentive Structures

The inefficiency of the port of Dar Es Salaam is equivalent to a trade barrier of 22 and 5 percent on the merchandise imported by containerized and bulk cargo respectively. This extra-cost has obviously significant implications on the Tanzanian economy and neighboring countries.

The cost inefficiency for the economy

At the aggregate level, the estimated total welfare loss generated by inefficiency at the port can be calculated by examining the impact associated with the tariff equivalent on local producers, consumers, and the Government in Tanzania. Each of these agents is losing as the result of higher final prices and lower volumes of imports. As a result of the tariff equivalent of the port inefficiency, the cost of imported intermediary products is higher for local producers and the purchasing power of final consumers is eroded. As imported goods are less affordable, the import demand decreases and the society’s welfare is substantially reduced. The tariff equivalent due to the port inefficiency contributes to an estimated reduction in the amount of imported goods by USD 2.4 billion, i.e. 25 percent of total Tanzanian imports recorded in 2012. These «missing imports» also reduce tariff revenues for the Tanzanian state as well as they lower benefits for the port operators, who handle
less merchandise than they could with an efficient port. Finally, the port inefficiency affects similarly the landlocked neighboring countries, increasing the transit costs and so lowering their trade activities. All these losses are summed up in Table 3.

The total global welfare loss is estimated to be USD 1'759 million per year for the Tanzanian economy and USD 830 million per year for neighboring countries. As part of these losses, the revenue collected by government agencies (TPA and TRA) are reduced by approximately USD 157 million. These amounts represent around 3 percent of annual public revenues, which could have been used to finance additional investments in education, health or other vital public expenses to improve Tanzanian citizens’ welfare.

### Table 3: The global cost associated to the port inefficiency, in USD million

<table>
<thead>
<tr>
<th>Impact</th>
<th>Local Imports</th>
<th>Transit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welfare loss</td>
<td>1'759.1</td>
<td>830.1</td>
<td>2'589.2</td>
</tr>
<tr>
<td>Excluding liquid bulk (petrol)</td>
<td>772.1</td>
<td>297.4</td>
<td>1'069.5</td>
</tr>
<tr>
<td>Imports decline</td>
<td>1'758.5</td>
<td>649.8</td>
<td>2'408.3</td>
</tr>
<tr>
<td>Container</td>
<td>865.2</td>
<td>291.9</td>
<td>1'167.1</td>
</tr>
<tr>
<td>Bulk</td>
<td>74.6</td>
<td>33.0</td>
<td>107.6</td>
</tr>
<tr>
<td>Liquid bulk(petrol)</td>
<td>818.7</td>
<td>324.9</td>
<td>1'143.6</td>
</tr>
<tr>
<td>Government revenues losses</td>
<td>154.6</td>
<td>2.4</td>
<td>157.0</td>
</tr>
<tr>
<td>TRA</td>
<td>148.8</td>
<td></td>
<td>148.8</td>
</tr>
<tr>
<td>Import duties</td>
<td>54.2</td>
<td></td>
<td>54.2</td>
</tr>
<tr>
<td>Tax revenues</td>
<td>84.6</td>
<td></td>
<td>84.6</td>
</tr>
<tr>
<td>TPA</td>
<td>5.8</td>
<td>2.4</td>
<td>8.2</td>
</tr>
<tr>
<td>TICTS revenues losses</td>
<td>12.0</td>
<td>5.4</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Additional import tariffs due to port inefficiency have significant implications on households. Based on the average share of goods in Tanzanian household expenditures, it is estimated that a Tanzanian household could save 8.5 percent of its total expenditures, or USD 147 per year, if the port of Dar Es Salam could become as efficient as in Mombasa. This finding illustrates that the port has not only a significant negative impact on the country’s growth performance but also on the lack of progress in reducing poverty rates. Port inefficiency contributes to an increase in the price of food and energy expenses that account for three quarters of low-income household’s consumption basket.

The above two approaches aiming to estimate the global impact of the port inefficiency on the Tanzanian economy can be complemented by a more detailed description of the channels at play for two strategic goods. The first example is cement, which represents an important share of Tanzanian imports, and is the main input for a number of domestic activities, most notably construction (8 percent of total costs) and the glass factory (5 percent). The extra-tariff of 5 percent due to port inefficiency not only increases the price of the imported cement, but also is an extra-protection for local producers who are able to increase their prices. As a result, the price of cement is much higher in Tanzania than in Kenya or other producer countries. The close relationship between local and imported prices in the cement sector has been confirmed in many recent studies. As an example, local cement prices decreased from Tsh 15,500 in June 2008 to Tsh 10,500 in October 2009 when the Government decided to temporarily remove duty on the importation of cement from outside EAC in 2008.

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7 In 2008, the retail price of cement was 45 and 60 percent higher in Tanzania than in Kenya and Ghana respectively. It was also 2.5 and 4 times higher than in Bangladesh and Vietnam. More recently, the price difference between Tanzania and Kenya was reported in the range of 5-20 percent.
For fertilizers, port inefficiency is equivalent to an extra-tariff of 5.2 percent, which, due to the little competition faced by importers on the local market, is almost fully passed through higher retail prices. Higher price of fertilizers leads to their under-use and contributes to low productivity and lack of competitiveness in the agricultural sector. This sector is central for the Tanzania economy as it represents 25 percent of the GDP and 75 percent of total employment. Port inefficiency also offsets the expected impact of the Government’s subsidies programs on the use of fertilizers. These programs aim at reducing the price of fertilizers for farmers while the port inefficiency contributes to increase these prices at the same time. From the Government’s perspective, it might be more rational to improve efficiency of the port (a one-time cost) than to spend significant amount of public resources on farmers’ assistance programs every year.

**Gains for targeted groups**

Ports are generally good businesses if two conditions are met. First, there is sufficient volume of transactions to guarantee economies of scale and returns on initial investments. Second, there is limited competition from other ports or other transport networks as well as internally between port operators. These two conditions are met in the port of Dar Es Salaam. The main port authorities and operators in Dar Es Salaam are Tanzania Port Authority (TPA) which own the port infrastructure, operate the conventional terminal and a share of the container traffic; the Tanzania International Container Services (TICTS) which is the only terminal operator and the Surface and Maritime Transport Authority (SUMATRA), a multi-sectorial regulatory agent.

While there is no doubt that the port of Dar Es Salaam is an important source of revenues, it becomes more difficult to identify who is taking advantage of its current inefficiency. Our analysis suggests that significant gains can be extracted from the current inefficiency as the result of: (i) the distorted incentive structure in the port; (ii) the widespread use of corruption; and (iii) the extra-protection for local producers.

**The first source of gain from inefficiency is linked to the conflict of interests in the existing incentive structure at the port.** The well-known example is the storage tariff structure that does not encourage importers to remove their merchandise from port premises. This structure, on the other hand, works at the benefit of the Tanzania Port Authority (TPA), Tanzania International Container Terminal Services (TICTS) and ICDs, since when dwell time exceeds the free storage period of 7 days, each additional day of storage represents a direct additional profit for them. The total revenue from additional storage collected by the TPA and TICTS was around USD 14.5 million in 2011. Besides, many ICDs remain profitable only in reason of long storage time as it is estimated that merchandise should be stored for at least 14 days to cover the operating costs of most ICDs. Another example of perverse incentive is that the TPA is able to earn more revenues when TICTS becomes less efficient. When the berths managed by TICTS are congested, a portion of container traffic is redirected to the TPA berths. The issue is that TICTS’ efficiency is impeded by the lease contract of old TPA cranes. It might not be a coincidence that the TPA has not renewed the cranes over the past few years. The additional revenue generated by container traffic for the TPA was estimated around USD 36.5 million in 2011.

**The second source of gain from the current inefficiency is visible through the widespread use of corruption.** Rent-seeking behavior has been exacerbated by the use of discretionary rules that contributes to the typical asymmetric information problem between administration and users. Custom duties, invoice valuations, and port rules are frequently modified by agencies without any detailed explanations. Not only are users not well informed but also many agents who continue to apply old rules, or worse,
their own rules. This rent-seeking behavior is also favored by the quasi-absence of controls. TICTS has no real competitor except for TPA. Customs officials have substantial discretionary powers on clearing goods since only one quarter of the imported goods goes through the green channel. In addition, internal and external supervision is limited with ineffective appeals mechanisms. As a consequence, discouraged traders often prefer to negotiate on the spot.

The opportunities for corruption gains are also facilitated by the presence of several conflicts of interests. For example, TICTS is a joint venture between an international private company and a number of local private investors but there is no information regarding their identity (one of the major scandals in 2008 was that one of these investors turned out to be the Minister of Transport himself). The TPA plays a dual role of operator and landlord. The Surface and Marine Transport Regulatory Authority’s (SUMATRA) vast discretionary powers, especially on charge levels and port fees, creates a high risk of corruption by agents and operators since neither formula nor benchmark is used to justify decisions. Other conflicts are found in the cumulating roles of some local shipping agents that are also involved in forwarding and ICD operations in contradiction to Tanzanian law. Whereas there is no reason that shipping agents/lines cannot participate into logistical activities, the law should apply to all.

The third source of gain associated with port inefficiency is the extra-protection for local producers. For containerized cargo, this protection is equivalent to a tariff of 22 percent or about three times the weighted average duty tariff on total merchandise trade in Tanzania (WDI, 2012). Such protection allows local firms to increase their margins or to produce without the maximum efficiency, with customers having to absorb the cost. The extra-protection also favors importers, especially those who can act collusively. Monopolist importers could take advantage from variations in delays and operating costs by setting their prices to the highest costs possible even if those are variable over time. Such profit maximizing behavior is more likely for goods that have relatively low price elasticity values such as food. These importers could also store their cargo in the port until the price peaks in an upward season. They can also create artificial shortages in the local market and delay early deliveries until market prices rise. (Raballand et al, 2012)

Towards an explanation of the resistance to reform

Tanzania and its neighbors could gain over USD 2.5 billion a year if the port of Dar Es Salaam was to become as efficient as the port in Mombasa. Given that this should be a realistic target in the short to medium term, why is efficiency enhancing policy reforms moving so slowly? The conventional response is that the Government (or TPA) does not have the sufficient financial resources to implement the necessary reforms. Several studies conducted by the government, supported by donors, have estimated that the total cost of reforms should range between around USD 1-2 billion to be distributed over five years. These costs include new infrastructure and rehabilitation within and outside the port as well as the modernization of existing systems. Despite the large costs involved, several private investors have already lined up to finance most of investment, and donors have been ready to finance part of the reforms. In addition, there are several reforms in the soft infrastructure of the port, which are not expensive and would greatly improve the situation (e.g. vessels’ calls sequencing.).

While financial constraints are part of the explanation behind the slow progress in implementing reforms in the port of Dar Es Salaam, it can be argued that the main reason

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8 Port related main infrastructures are estimated at USD 1.1 Billion with the construction of DSM Container Terminal berth 13 &14 including dredging (USD 700 Million), the conventional terminal upgrading (USD 250 Million), and Kisarawe dry port (USD 183 Million).
behind current resistance can be found elsewhere. The lack of progress can be embedded in the asymmetric bargaining power between winners and losers. In other words, the status quo is to a large extent maintained because winners are more powerful than losers in influencing decision makers, even if their gains are much lower than the losses for the global economy (Baldwin and R. Nicoud (2008)). In the port of Dar Es Salaam, some major winners (TRA, TPA and their employees) are part of the State themselves, and the close connection between TICTS and power circles raises suspicion. Most of those benefitting from the extra-protection provided by port inefficiency are among the largest firms operating in the country, with significant market power and linkages with political elites.

The lack of bargaining power of current losers is rooted in several explanations. First, the losses are diffused among many end-users (consumers and investors) that have little direct connections with policymakers. For example, in the cement sector, the consumers are a large number of firms and households all over the country, while there are only three main local producing firms who have access to country’s elites. Second, many consumers are not fully aware of the negative impact of port inefficiency on their welfare. The marketing chain is long with multiple intermediaries between the port and the consumers, including wholesalers and retailers. Third, the costs associated with inefficiency are not only difficult to capture for end users but their magnitude is also uncertain over time. For example, the cost associated with dwell time varies substantially across transactions and over time.

Beyond the asymmetric distribution of bargaining power between winners and losers, there are coordination failures and time inconsistency issues. Coordination failures operate at two levels. The first level is within the port where the responsibilities are diffused among different players, with often conflicting roles (such as the TPA which acts as both the operator and the landlord of the port). The second level is in port operators’ failure to incorporate the costs arising from inefficiency in their decision process. This typical “public good” problem leads to under-investment because the negative effects resulting from the status quo are not taken into account by the port operators. Another example is found in the TRA. Greater efficiency in tax collection will increase substantially tax revenues. However, individual staff may be losing as the result of lower opportunities for rent-seeking behavior. Consequently, there is no sense of urgency in favor of reforms.

Finally, time inconsistency also matters for understanding the resistance of some port actors to efficiency enhancing reforms. While the gains will be significant in the long term, these agents might lose in the short term. For example, TICTS and TPA would benefit from higher traffic volume in the longer term but in the short-term might lose up to USD 14 million per year in storage revenues if dwell time is reduced below the 7 days free period.

**Recommendations**

If Tanzanian leaders had to select one action to transform their country, the modernization of the port of Dar es Salaam should be their priority. Bringing the port efficiency to the level observed in Mombasa (average in class for African ports) could generate about USD 1.7 billion of additional revenues per year to the Tanzanian economy, and about USD 800 million to regional economies. The Government should act decisively on the political economy front to accelerate the pace of reforms. The cost of inaction is already too big for the Tanzanian and regional economies, around USD 9 billion.

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9 Since September 2012, under the implosions of the new Minister of Transports, a number of actions have been implemented with the objective to improve the port efficiency. The port performance has improved due to the arrival of three new cranes. Actions have also been taken to combat corruption through the recent replacement of TPA Board as well as its top management.
2.6 billion per year, and the port of Dar Es Salaam might lose its existing market share in regional trade when other ports and railways become operational in neighboring countries. Proposed are five objectives or principles that should be viewed as possible directions for enhancing the implementation of reforms in the port of Dar Es Salaam. While each objective is important, we believe that their combination is critical to push for the rapid implementation of efficiency-enhancing reforms.

(i) **Increasing end-users’ awareness of costs related to port inefficiency.** Many end consumers and small farmers are not aware of the negative direct effects of the port on their welfare and fail to realize that they are paying an excessive price for their inputs due to port inefficiency. There is a need to better explain and quantify the costs associated with the current situation in the port to all stakeholders in the Tanzania, as well as those in the sub-region. The Government should take the lead in proceeding with economic studies, mobilizing consumer groups and small business associations, conduct end-user surveys, and create a public awareness campaign.

(ii) **Reducing the bargaining or monopolistic power of current winners who profit from the status quo.** This objective can be achieved by reducing existing conflict of interests that contribute to increase the risk of collusive behavior at the expense of end-users. The first action should be to bring transparency to connections between TICTS and decision-makers. This can be done by making public the names of the main local stakeholders of this company. The second action should be to eliminate the dual role of the TPA, which currently acts as both the landlord and one of the two operators in the port. It would also be important to promote greater transparency in the financial accounts of the TPA.

Promoting greater competition could also reduce the monopolistic power of current port operators. This can be achieved by a “big bang” or through an incremental approach. The former would introduce new port operators and/or privatize the operating arm of TPA. The latter approach can be implemented by privatizing some activities (e.g., handling operations and maintenance) or by modifying some existing practices in the port that reduce competition. The following measures could be taken in priority: (a) Modify the call sequencing system for vessels from “first come, first serve” to fixed berthing windows for shipping lines; (b) Reconsider the role of SUMATRA which should focus on its role of regulator rather than controlling shipping rates. The current system with a uniform rate across all shipping companies reduces competition; (c) Revisit the legal restriction that shipping companies cannot be involved in any logistics activities since the fragmentation of logistics services is a key source of inefficiency; (d) improve the efficiency of freight forwarder/clearing agents by removing inappropriate regulations, increasing transparency of their tariffs and activities, and penalizing those who operate outside the law.

(iii) **Reducing corruption which is the main channel exploited by beneficiaries of the status quo.** This would impose a zero-tolerance corruption policy through a clear commitment from the top authorities. The use of benchmarks through an automated system should help monitor performance of port operators and the TRA. To reduce corruption, procedures should be simplified as well as the tax system, by introducing a one-step clearing process, and the number of taxes and exemptions should be reduced. There is also a need to provide good compensation and working conditions for customs agents (to reduce temptations), and to intensify internal and external controls as well as to implement credible sanctions in case of abuses or misuses. Customers should have access to
independent and inexpensive appeal mechanisms. The methodology used to calculate wharfage fees should be modified from a value to a fixed based system. This would prevent agents from negotiating with clearing agents and importers and contribute not only to speeding up the process but also to reinforce collaboration between private and public operators within the port. Another important action would be to revisit the structure of storage fees that does not encourage importers to exit their containers on time. The fee structure should make excessive storage time more expensive except if the cause of the delay is due to lengthy clearance process. Importers who repeatedly abandon cargo should be penalized, and the government should instruct the TRA to auction all abandoned cargo in a timely manner, and set a budget for the destruction of cargo that cannot be auctioned or re-exported to origin after a delay.

(iv) Motivating reformers. The staff of the TPA and TRA could be motivated by the introduction of performance-based incentives. Such an approach was implemented in the port of Douala in 2010 with successful results. The number of transactions cleared by tax and customs administration has increased by more than 10 percent and tax revenues have gone up by USD 16.5 million.

(v) Improving coordination. Coordination failures have long been recognized and justified the creation of the Port Improvement Committee that attempts to regroup the most important players involved in the functioning of the port. However, this Committee chaired by the TPA is not efficient due to the conflicting interests of its members, and the dual role of the port authority. At the same time, there is a need to involve key players that are not directly involved in the functioning of the port but are affected by its performance. The cost of port inefficiency is not absorbed by the port operators or authorities, but end-users such as ordinary consumers, traders and farmers. Our recommendations are to (i) include the voices of end-users in the committee; (ii) transfer the role of Chairman to the Minister of Transport (or a Champion outside of the port); and (iii) strengthen the mandate of the Committee that should supersede that of individual agencies operating in the port.

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10 As per international law, if a consignee does not take the Delivery Order, the shipper at origin is responsible for all costs associated to the re-export of the cargo. Custom approval to re-export should however be expedite. As per local law, when a container is stored by more than 60 days, TRA is authorized to auction it so that the cargo will be evacuated from the port premises by the winner of the auction. A number of containers, generally with low values, are not auctioned and so remain stored in the port for very long period.
About the Authors

This note has been derived from a report of the same title compiled by a team led by Jacques Morisset (World Bank) and comprising Charles Moret (World Bank consultant), and Julie Regolo (University of Geneva). This note was edited by Gozde Isik (World Bank). This research that this note is based on has been funded by DANIDA and the World Bank. The views expressed in this paper reflect solely those of the authors and not necessarily the views of the funders, the World Bank Group or its Executive Directors.

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* The main source is a series of face-to-face interviews with port authorities, terminal operators, ICD/CFS operators and shipping agents during June of 2012. Interviews included: African Shipping Limited General Manager, Diamond Shipping Services Managing Director, GAPCO Managing Director, Maersk (Nyota) Managing Director, MOL (Inchcape) Operation Manager, NYK (Wosac) General Manager, Rais Shipping Services Operations Manager, SDV (AMI) Managing Director, Seaforth Managing Director, Sturrock Operation Manager, Tanzania Freight Forwarder Association Management, Tanzania Railways Limited Managing Director, Tanzania Zambia Railway Managing Director, TICTS Commercial Manager, TPA Principal Planning Officer, TRA Trade Facilitation Manager.