



Kenya Shippers Council

The Voice of the Cargo Owners

ANNEX I

Terms of Reference to undertake an analytical study of Transport and Logistics Costs, Cause and effect on Competitiveness of Kenyan Shippers with specific advocacy and policy recommendation for the Kenya Shippers Council.

A) Background

- 1) The Kenyan logistics and transport chain systems are characterized by a myriad of problems ranging from inefficiencies, unreliability and unpredictability of transport and logistics service providers. The multimodal transport system is served by sea, air, surface (Road and rail) and to a smaller extent inland waterways serving shippers in conveyance of their cargo.
- 2) The cost of transport has remained unsustainably high and given that many shippers import raw materials and intermediate goods for processing, effective competitiveness of finished products has been affected in both regional and international markets. The Kenyan industries have risen to the challenges of globalization with the economic base registering growth.
- 3) The Kenya Shippers Council is a cross liaison forum that brings together major cargo owner membership organizations such as Kenya Association of Manufacturers(KAM), Fresh Produce Exporters Association of Kenya (FPEAK), East Africa Tea Trade Association (EATTA), Cement producers of East Africa (CPEA), Kenya Coffee Traders Association (KCTA), and Petroleum Institute of East Africa (PIEA).
- 4) It provides a platform to articulate shippers concerns and demands to the transport service providers and relevant government institutions. It provides a cross sector forum for discussion with a wide variety of logistics and transport services providers.
- 5) Shippers have increasingly found themselves individually unable to negotiate effectively with organized transport and logistics service providers such as Shipping lines conferences, Airlines, Road Hauliers, Railways and Freight Forwarding agents resulting in additional costs being passed to shippers.
- 6) The Kenyan Transport system is important to the other regional economies of the land locked countries due to the strategic location of the sea port of Mombasa. The northern corridor road and rail network connects the port city to the landlocked countries through Malaba and Busia border post linking Uganda, Rwanda, Burundi and DRC. There are other border posts linking the port to Northern Tanzania of Taveta and Isebania Border posts. Each of these stations has their own challenges resulting in delays and increased costs.
- 7) The Kenyan transport system is also characterized by an elaborate air transport system with international Airports in Nairobi, Mombasa, Kisumu and Eldoret. The JKIA in Nairobi provides an important hub for both passenger and cargo movement in the region with most major airlines calling the airport. Horticultural and flower cargo remains the major air cargo exported while pharmaceuticals and perishables form the bulk of imports. However, the costs

of air transport remain prohibitive to many with many businesses operating at borderline margins.

- 8) The oil products imported are transported through a pipeline system that links the port to the inland depots. There are however oil products transported by road and rail inland. The transport costs form an element of the overall costs of the petroleum products. This will ultimately have an effect on the cost of transport and hence the cost of doing business.

B) Statement of the Problem

- 1) A variety of factors have been identified as adding to the high cost of transport incurred by cargo owners. The rising transport and logistics costs have a serious impact on the cost of doing business and competitiveness of our industries in the global markets. There is need to identify, understand and quantify these costs in order to review, design and advocate for policies and programs aimed at minimizing or eliminating the extra costs.
- 2) It has been estimated that 20-30% of the total production costs are represented by supply chain costs. Direct transport and logistics costs alone are estimated to account for 30-40% of the total supply chain costs.
- 3) Cargo owners have had to bear the costs associated with cargo movement such as freight costs, port (Sea and air), handling charges, procedural fees (such as bonds), agency fees, shipping line charges and other transactional payments in the logistics chain. Some of these payments amount to double payments.
- 4) The factors that have been identified as key in contributing to high transport costs either directly or indirectly include:
 - i. Quality of infrastructure
 - ii. Competence of private and public logistics service providers
 - iii. Corruption and transparency
 - iv. Customs and other border station procedures
 - v. Reliability and predictability of trading systems in the supply chain.
- 5) The Kenyan Shippers are affected by a multiplicity of government agencies at the ports of entry and exit. These include Customs, KEBS, KEPHIS, Port Health, the police and other security agencies that without coordination intervene in the clearance process resulting in delays.
- 6) Cargo dwell time at the port of Mombasa is currently an average of 14 days. KPA allows 7 days free period for local and 14 days for transit thereafter storage is payable. That in effect means that most of the containers through the port incur some level of storage resulting from slow processes that cargo owners have very little control of.
- 7) Cargo owners have over the years been made to bear costs imposed through surcharges by shipping lines due to inefficiency of the service providers thus resulting in high logistics costs. This translates to high costs of inputs and production. The net effect is high prices of consumer goods and escalating poverty with a negative effect on the countries competitiveness in the global scene.
- 8) Cargo owners expect an efficient, reliable, predictable and cost effective service from their service providers. The higher the costs in the supply chain the more apparent the system inefficiencies.
- 9) The government notably the Ministry of Transport is charged with the authority to regulate the transport sector. There is a general feeling in the private sector that government has not seriously addressed the factors responsible for the escalating costs. There is need to develop a comprehensive policy document to be used in formulating policies and measures to address the high costs.

- 10) Logistics and transport systems require long-term planning and investment in order to gain from the benefits of reliability. There is need to develop understanding of various issues relating to infrastructure development, maintenance of surface transport modes of road, rail and pipeline. There is also need to expand air transport mode as a means of unlocking investments in horticulture and highly perishable high value products.
- 11) Transport costs therefore can be defined in terms of the following elements:
- i. Maritime costs (shipping freight, charges and surcharges and ancillaries)
 - ii. Port handling and documentation costs and storage charges
 - iii. Surface freight costs (Rail or road)
 - iv. Inland terminal costs (ICD and CFS)
 - v. Customs and border station procedures(cost of delays, verification, scanning)
 - vi. Cost of corruption and transparency
 - vii. Reliability and predictability costs(inventory costs)
 - viii. Agency and clearance costs and Transit licensing regimes
 - ix. Cost of internal systems delays (weighbridges, police checks and truck idle times)
 - x. Transactional costs
 - xi. Airline charges, airport fees, surcharges
 - xii. Cost related to energy i.e. diesel.

C) Objective of the Study

- 1) The overall objective of the study is to enable the Kenya Shippers Council develop and formulate advocacy policy aimed at addressing the high cost of transport with proposed institutional and operational changes aimed at guiding private sector in choice of modes, negotiation, contracting and investment in transport sector.

D) Specific objectives of the study

- 1) Quantify and qualify the overall transport chain costs from source to end based on the areas identified above
- 2) Benchmark the costs and freight in relation to other economies in Ghana and South Africa, Malaysia, Singapore and Europe with specific proposals of suitable logistics performance index (LPI).
- 3) Conduct an analytical study of the total logistical costs from the port of loading to the port of discharge and to the end user with emphasis on the internal costs to the carriers and external costs taking into account the cost of delays.
- 4) Propose and recommend concrete policy, institutional measures meant to address the reduction of costs and improve competitiveness
- 5) Provide a diagnostic analysis on reliability, predictability and safety on road, rail and pipeline as a mode of transport
- 6) Provide an analysis on airfreight costs with emphasis on savings related to its quick delivery times, reliability and predictability
- 7) Propose institutional regulatory changes that will cushion the cargo owners from being penalized for inefficiencies of the systems beyond their control.

E) Scope of Work

- 1) The study will be expected to collect information on the volume, mode, and time with specific information on local costs such as surface freight charges, clearing and forwarding fees, cost of delays, costs related to international

transactions like shipping and sea freight, port charges, storage charges, handling costs, financial and inventory and transactional costs. The information should cover the tariff based costs in the overall system from the point of origin, the port of discharge, inland ports, cost of delivery, and warehouse to destination. Cost related to operations such as cost due to delays, storage and handling, transshipment, border post clearance, reliability and predictability and other transactional costs relating to movement should be reflected.

The study should among other things:

- vi. Identify the tariff based and operation based transport costs with a view of apportioning their ratio on transport cost
- i. Provide a comparative analysis on the cost of transport by rail and road with a view of providing a framework for competitive access to their services. This should also provide the operational characteristics and costs by vehicle and wagon type. Inbound and outbound costs should be separately identified.
- ii. Determine the elements of freight charge by transporters with a view of identifying areas that require regulatory intervention to address the reduction of costs.
- iii. Examine the specific constraints such as documentation, weighbridge operations, police checks, formalities, scanning and verification, port facilities, inland port utilization, airport documentation and efficiency and facilities along the roads(designated parking)
- iv. Review policy framework impacting the transport sector with emphasis on measures that will provide full benefits of cost reduction to the cargo owners. Analyze the impact of government regulatory and licensing bodies on the transport industry.
- v. Develop and propose key priority measures aimed at reducing costs and improve reliability, efficiency and cost effectiveness of all transport modes and services for the benefit of the users of the services.
- vi. Prepare an analytical addendum on hidden costs, charges and surcharges by shipping lines, road, and rail and airline operators and opine on their impact to transport.

F) Methodology

The consultant will be expected to prepare a working methodology, review and analyze existing information from various institutions as well make field visits to relevant institutions and operational areas.

Thereafter the consultant will be expected to submit final draft report to a workshop with its findings and recommendation.

G) Deliverables and Outcomes

- a. Costs and elements identified in 11 above quantified according to its effect
- b. Benchmark report on transport costs
- c. Policy proposals for advocacy to address the high costs of transport
- d. Proposals on key institutional and regulatory changes required to achieve the overall objective

- e. Produce a reference handbook on costs to be used for competitive choices of mode of transport.

H) Duration of the Study

The study will be expected to take one month. Submission of first draft of the report should be within 30 days of the commencing of the study. The expected commencement date for the study is 15th July 2008 with the first draft expected on 15th August 2008.

I) Qualification of the consultant

The lead consultant must have a master's degree or above in Economics, Statistics with competencies in conducting research as a transport economist, logistics expert or a trade facilitation expert and ability to carry out the study within the determined time frame.

J) Confidentiality

The consultant will be bound by the terms of this study to strictly protect the confidentiality of the companies participating in the survey

ANNEX II

Manner of submission

- a) The proposal shall be prepared in English Language
- b) your proposal should comprise of
 - 1. Technical component
 - 2. Financial Component
- c) Each of the above components should be in a separate envelope clearly marked and indicating the name of the firm
- d) Attach copy of PIN Certificate , VAT and ETR registration
- e) All proposals will be enclosed in one sealed main envelop titled “ TENDER FOR TRANSPORT AND LOGISTICS COSTS STUDY CONSULTANCY SERVICES FOR KENYA SHIPPERS COUNCIL”
- f) Do not indicate the name of the firm on the outer envelope

Content proposal

i) Technical component

- a) description of the firm and the firm's qualification
- b) proposed approach and methodology
- c) timing of activities and reports
- d) deliverables and output including how to measure them
- e) proposed team structure with detailed profiles and minimum qualification
- f) Please note that inclusion of such profiles constitutes a commitment to use those members and substitution in the event that the contract is awarded will lead to cancellation of the contract

ii) Financial (price Component)

The price component shall have a cover letter where the firms authorized representative affirms the following:

- a) A summary price
- b) The period of validity

In addition, the price component must cover all the services to be provided and must be itemized as follows:

- a) unit and total fees per person for each team member to be assigned to the field and a rate for office work, if any
- b) other costs, if any(indicating nature and breakdown)
- c) summary of the total costs for the services proposed
- d) taxes

Payment terms (Provisions)

Payment will be based on performance of contractual services rendered or on achievement of specific milestones and will be subject to local taxes.

Evaluation of proposals

Evaluation will first be done on Technical component and scores awarded before evaluating the price component

Timing

The proposals are to be submitted to AAM Resources, Chiromo Lane, Next to Diagnostics Centre latest **10th July 2008 at 12.00 pm**. Late submissions will not be opened.