



Technical Assistance for the
Development of the Port of Baku
Project Progress Report
15 August 1996

Project Progress Report - Cover Page

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| Project Title : | Technical Assistance for the Development of the Port of Baku Management Assistance and Training | |
| Project Number: | TELREG 9304 | |
| Country: | Azerbaijan | |
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Project Progress Report

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1. Project Synopsis

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| Project Title: | Technical Assistance for the Development of the Port of Baku Management Assistance and Training |
| Project Number: | TELREG 9304 |
| Country: | Azerbaijan |

Project objectives:

Support the management of the Baku Sea Port in the transition to the market economy by strengthening the management in introducing new policies and working methods to cope with the new challenges resulting from the market-oriented environment.

The project includes the implementation of a modern financial management system to analyse all investments for short, medium and long term periods, advise on modern port operations, and management training.

Planned outputs:

- Establishment of private activities and involvement in investments in the Port of Baku
- Main investments for necessary infrastructure and the reconstruction of the Port and their financing are defined
- The management of the Port is able to work in market economic conditions
- A framework for the establishment of a Freeport in Baku is developed
- An appropriate Management Information System is implemented at the Port
- The Port works to capacity, needs for changes of manpower, organisation and equipment of the Port is identified and recommended.

Project activities:

- Identify fields for private involvement in the Port.
- Elaborate and implement port infrastructure investment plan
- Conduct management training and develop a training scheme
- Prepare necessary framework for establishing a Freeport in Baku
- Introduce an appropriate Management Information System

Project start: 28. January 1996

Project duration: 16 months

2. Summary of the Project Progress

Since start in February 1996 the project concentrated on six main activities described in the project activity plan. These activities are naturally interlinked and a joint approach was necessary to tackle all activities. In the course of the work priorities for specific activities arose and the Port itself has cared much about the fields concept for computerisation of the Port and development of a new organisation structure.

The work of the consultants was characterised by extensive assessment work in order to reach a comprehensive overview of the Port's activities and situation.

For establishing private activities in the Port, the carried out business field analysis identified eight main fields, of which the traditional private one's and the non-core activities of the Port can be considered for private involvement. Further the Port is listed as an entity for privatisation in Azerbaijan, but particular decisions and actions towards have not been taken. This field of activities is not treated with priority by the project unless there is a clear position for the privatisation plan of Azerbaijan's authorities.

A Port infrastructure development plan is not existing in the Port, therefore it became necessary to assess the transport market in Azerbaijan. A most likely picture of the developing cargo flow has been elaborated, but detailed traffic forecasts were not possible at this stage, due to non-availability of data from other Tacis projects and an extensive assessment is not covered with the project terms.

Based on the future needs for the developing cargo flow, a concept for the general cargo terminal, concerning infrastructure and utilisation of existing areas and facilities, is under development in close co-operation with the Ramboll team of the Ferry Terminal Rehabilitation Project.

The joint approach for this project included in the first period also various training components. Three formal seminars with professional lecturers from outside have been carried out in the fields finance and accounting, marketing and sales, and management methods and organisation. Further regular workshops and seminars for the Port Management, Cargo Handling Operations and Finance and Accounting section have been carried out by the consultants. Further in the course of identifying training needs a detailed manpower assessment has been executed.

Establishment of a free port in Baku is seen as a positive instrument for easing custom's procedures and attracting transit cargo. A study for recommended rules and regulations governing the modalities of use and the conduct of users of the free port is currently in process by the consultants.

The activity "Introduce an Appropriate Management Information System" has become of major importance in the course of the project. A detailed assessment of the existing equipment has been carried out and the ruling legislation for asset accounting reviewed. Neither a MIS nor sufficient sources for required data are virtually existing in the Port. Therefore a very detailed assessment of the entire Port's financial and accounting matters became necessary and is not finalised yet. In order to tackle the problems in this sector the Port decided to implement a computer based accounting system within this project with the assistance of the consultants.

Further the organisation structure of the Port has been examined and based on the business field analysis a new commercial oriented structure was proposed. In this course also the existing payment scheme of the Port and the ruling legislation were reviewed in order to identify needs for changes.

3. Summary of Project Planning for the Remainder of the Project

After completion of the first six months period the assignment of the operations expert has ended according to schedule. The currently two resident experts (Assistant to the General Director and Assistant to the Financial Director) are emphasising on the activities on which the Port desires the most input. The Management Training Advisor will continue work for the second term by end of September.

In the course of the daily work a fruitful co-operation has been established between the port management and the consultants. Beside the regular project activities mutual work is carried out and assistance is given for tasks of the management, such as drawing up the annual business plan for the Ministry of Economics.

The planning for the activities according to the project plan for the next period are as follows:

In the field of privatisation there are no activities planned, unless this issue becomes of special interest for the Port.

A port development concept is under elaboration, therefore the multi modal cargo handling needs of the railway, the ferry terminal and the general cargo terminal will be co-ordinated as far as possible. A concept decision for centralised container handling facilities in Baku is necessary to avoid parallel investments. A close co-operation with the respective Tacis projects will carry on.

The training programme for the Port management will continue with a study tour to European Ports early September, further an additional seminar on financial accounting, calculation and budget planning is scheduled for October. Parallel to the implementation of computer based accounting, special training in use of computers and the accounting software application will take place.

For the establishment of the free port in Baku a study on the necessary frame work is under elaboration.

The main field of activities is the introduction of a Management Information System. Core activity is the implementation of computer based accounting together with a cost accounting system. Reporting procedures and routines will be established.

Further activities are an analysis of the financial statements of the port, the introduction of a commercial budget planning system, the collation of the asset register with the physical existing equipment, and the development of a EDP concept for the whole Port.

A further activity will be the implementation of the new commercial organisation structure for which the Port is currently requesting approval with the respective authorities.

4. Project Progress

Since its start in February 1996 the project concentrated on six main activities. These activities are naturally interlinked and a joint approach was necessary to tackle all activities. In the course of the work priorities for specific activities arose and the Port itself has cared much about the fields:

- Concept for computerisation of the Port
- Development of a new organisation structure

The tasks of the consultants were characterised by extensive assessment work in order to reach a comprehensive overview of the Port's activities and the prevailing situation. Hereinafter the progress since project start of each field of activities is described:

4.1 Establish Private Activities/Investment in the Port of Baku

In the course of the business field analysis eight main fields of activities have been identified. These are seven business units with their subactivities and one service unit:

Business Units

- General Cargo Terminals
 - Stevedoring
 - Warehousing
 - Terminal Operation
- Ferry Terminal
- Sea Station/Passenger Terminal
- Oil Terminal
- Marine Service
 - Tug Boats, Pilot Boat Operation
 - Bunkering
 - Water Supply (joint venture with Caspian Shipping Co.)
 - Passenger Cruise
- Navigational Centre
- Real Estate Management

Service Unit

- Engineering, Workshops/Stores

Fields for private involvement in port's activities are in the first place the traditional private sectors of ports as well as non-core activities which are not related directly with cargo handling. Such activities as stevedoring, warehousing, tug boats and pilot boat operation, bunkering, water supply (joint venture with Caspian Shipping Co.), passenger cruise have been identified as such. A private involvement in these sectors would assure higher service quality and cost and profit oriented operation.

Besides this the Baku Port is listed as an entity for future privatisation in the privatisation programme of

Azerbaijan's government. In this background a general privatisation of the Port requires a partition of the commercial port activities from the national tasks. The latter needs to be integrated into a port authority or national maritime administration under governmental control.

Privatisation of port activities are currently in this project not treated with priority and steps towards this have not been decided yet, therefore the initially planned activities are depending on further development. Generally, if the governmental plans will be carried out, the partition of commercial activities and national tasks will require priority and activities have to be adjusted accordingly. A clear position for the privatisation plan of Azerbaijan's authorities would be necessary for further project input in this field of activities.

4.2 Elaborate and Implement Port Infrastructure Investment Plan

The current cargo handling volume and the future traffic situation of cargo flow has been assessed as far as possible. Reliable statistical data are not available and furthermore the economical situation of Azerbaijan does not allow a forecast based on historical data. In order to reach a realistic picture of most likely developments in cargo flows the present and future development of the market has been assessed by the expert team. In this connection many contacts to freight forwarders as well as to related Tacis projects have been established and possible developments discussed.

A picture of the future situation has been described in "Cargo Flow Projection for Baku Port and Requirements for the future Port Development" (Annex 1). A detailed forecast of cargo volume is not possible at this stage of the project, because an assessment of Azerbaijan's national economy and the position of Baku within the transport infrastructure of Eastern Europe and Central Asia is not covered with this project and further, relevant figures from other Tacis projects are not available at this stage.

Based on the described future traffics the general cargo terminal has been examined in order to determine possible capacities for the future requirements. Currently the expert team is elaborating a development concept covering the future requirements and simultaneously considering the existing facilities and equipment.

The current infrastructure of the general cargo terminal is limited to the sufficiently existing railway access. Current road access does not allow higher volume of truck traffic. The same situation is given with the ferry terminal which is object of the second Tacis project in the Port, carried out by the Ramboll team. For development plans of the Port's road infrastructure, between both projects a co-ordination has been agreed to meet the needs of either terminals. Necessary assessment work has been discussed and allocated.

The planning of the road access infrastructure will be carried out in the second half of 1996 and is part of the ferry terminal rehabilitation project.

At the project start it has been anticipated that a certain port development plan is existing. While reviewing the existing plans, the project team learned that the Port so far has considered rehabilitation of all port facilities in respect of the rising sea level only. Economical developments currently taking place in Azerbaijan have not been taken into account. Planning activities and its responsibility is a fairly new field for the Port. In former Soviet Union times, it has been done outside the port at ministries or institutes such as the "Port Planning Institute". The lack of knowledge and skills in this field, and non-availability of concerned technical and economical data explains the current situation. A general port development plan becomes necessary to create a base for the Port's future.

4.3 Conduct Management Training and Develop a Training Scheme

In order to support the work of the consultants and further the understanding of the Port management for commercial business structures several training events have taken place at an early stage of the project.

Right In the beginning it occurred to be necessary to carry out training for the port managers, providing information about the tasks of management in commercial market oriented enterprises. Therefore three formal training courses in the fields of finance and economy, marketing, and modern management methods and organisation were arranged. As lecturers for these training courses, experts from both, Azerbaijan institutions and from Germany were employed. The flow and contents of these training courses have been recorded and laid down in Training Reports. For the sustainability each participant of these training courses has received a copy of the detailed seminar script.

Additionally, several workshops with participation of the port management, as well as of the consultants, were conducted. During these workshops the financial group discussed modern accounting methods and the operations group discussed and elaborated a port tariff. In three consecutive workshops a business field analysis, defining the services the Port is able to provide, the clients, transport routes and cargoes and elaborating a possible future organisational set up of the Port was jointly done (see "Work Group and Workshop" Plan, Annex 3).

The training courses were conducted in close co-ordination with the daily work of the consultants, in order to guarantee quick application of the contents of the training. Thus, the third workshop of the Business Field Analysis which was dedicated to the elaboration of a new organisational structure of the Port, took place immediately after the port managers had attended a seminar in organisation and management.

Also, a new marketing and business concept for the port ferries was jointly elaborated with the department head of the navigational department after his participation in the marketing seminar and the attendance of the operations group workshops.

Besides these formal training events, the port managers of the different departments have been coached by the respective experts in their fields as a daily routine.

A manpower audit on the basis of 325 questionnaires has been conducted in the Port of Baku with the target to gather information about the present age, job and department structure and about the existing skills and knowledge of the port employees. The evaluation of the audit proofed to be somewhat difficult due to delays in return and especially due to the very different ways of thinking and prevailing systems in Azerbaijan and in Western Countries concerning professional education. Therefore, the final evaluation can only be presented and discussed with the General Director and the port managers after the summer break of the Management Training Advisor in September.

4.4 Establish a Freeport in Baku

The viability for the establishment of a free port in Baku has been investigated. A study of recommended rules and regulations governing the modalities of use and the conduct of users of the free port is currently in process. Submission of the study will be in September.

The establishment of a free port in Baku which should cover all the terminals would ease custom's procedures for import and export as well as for the transit traffic. The formation of a free port in Baku is also one major requirement for the future development of the Port (see Annex 1).

4.5 Introduce an Appropriate Management Information System

In the course of the project this field of activities has become of major importance. In the following the development and deviation of the activities are outlined:

Activity 5.2 "Review and improve assets management"

After initial assessment of the cargo handling equipment, the workshops and the stores, the expert team came to the conclusion that an extensive survey on the equipment and the workshops was necessary. This survey shall provide an overview about the conditions and the value of the Port's equipment. Also the investment requirements shall be indicated according to the needs of the Port, considering modern cargo handling methods. An initial survey was conducted by the operations expert and for technical assessments of equipment and workshops by a technical expert, who visited Baku in the last week of July.

The asset accounting and administration of the Port and the applicable legislation in Azerbaijan has been reviewed. Currently the rules and regulation for depreciation are still valid from the Soviet Union time and do not consider commercial circumstances, such as economical life spans of assets for instance. Generally, in this field is an urgent need for the improvement of Azerbaijan's legislation.

Activity 5.3 "Develop a concept for computer based MIS"

A Management Information System is virtually not existing in the Port. Information is only provided on request and than in most cases verbally, only occasionally in written form on special request. A proposal for a daily liquidity status has been submitted to the Port, but the implementation was problematic, because the present accounting system is not in a position to provide regular cash positions as well as debtors and creditors status. The reason for that is the manual accounting carried out according to grown structures and procedures during the Soviet Union period. It became obvious that a restructuring of the accounting system and the implementation of computer based accounting is absolute necessary. The experts have therefore emphasised on the activity 5.6 described later in this report.

Activity 5.4 "Review and improve cash management"

The Port's currently permanent lack of funds caused by defaulting debtors, enormous high interest rates for loans, and lack of cargo handling volume, does not allow a systematic cash management. The Port is taking action to receive outstanding debts, but the non-payment of invoices by parastatal companies developed into a general problem in Azerbaijan and attracted meanwhile the attention of the government.

Activity 5.5 "Develop a budget management concept"

Presently, budgeting is limited to the requirements of the government. A budget planning in the sense of corporate planning for costs and profit centres is virtually not existing in the Port. A system for budget planning and controlling has been developed by the experts and will be proposed in accordance with the new organisation scheme.

Activity 5.6 "Review existing accounting system and advise on improved one"

The existing manual accounting system of the Port in the changing legislation of Azerbaijan is problematic. It can neither produce useful information to the management nor fulfill the obligations of the Port for governmental tax administration. From the beginning of this project the Port showed great concern about this problem and expressed the desire to implement a computer based accounting system within the course of the project period. This task actually implied a significant extension of the originally planned activity. A more detailed assessment of the whole accounting and financial sector of the Port became necessary.

Based on the extensive assessment and the results from the business field analysis at this stage, a project plan for the implementation of a computer based accounting system has been elaborated (see Annex 2) and the Port itself has already undertaken steps towards this computerisation.

The implementation of an EDP based accounting system has been entered into the project activity plan as the new activity "Implement a computer based accounting system". The allocated Tacis expert input for this activity of about 112 working days and the availability of a full-time local counterpart marks the magnitude of this project. The Port itself also underlines the priority for the computerisation by providing necessary funds for the acquisition of hardware and software which are not provided by this Tacis project.

Activity 5.7 "Review existing Payment Scheme and advise on introduction of improved scheme"

An extensive assessment of the existing payment scheme and payment procedures has been carried out. This included the checking of the payroll lists for the months November 1995 and January 1996.

The targets of an investigation to the payroll were:

- how many departments and subdepartments the Port actually had
- whether each department had an unequivocal name or indication
- how many employees actually the Port had on the payroll
- what the fluctuation was about
- what the spread of the take-home-pay was about
- what the deductions were about

The result of the investigation was not satisfactory. The copies of the payroll showed sometimes a mixture of the employees of the different departments (due to lack of paper, names had been written to other departments). The payroll lists are containing only the net payment. Deductions for tax, social funds etc. are not shown in these lists. Payments of sick-leave, holidays, children's money or other funds are also not indicated, they are treated separately. A further result was that the Port does not use a uniformed nomenclature, up to 3 different names were used for same departments.

The spread of monthly net salaries are reaching from one minimum salary (of 5500 Manat) to 4 minimum salaries (22000 Manat) up to about 300000 Manat a month for sailors. With an average payment of about 15 - 25 US \$ per month, a normal livelihood is not possible in Azerbaijan. Investigations with other companies operating in the freight business in Baku indicated a minimum

salary for warehouse workers of about US\$ 120 to US\$ 150 and increases to about US\$ 400 to US\$ 500 for higher level employment.

The employees of the Port virtually depend on other source of income in order to make a living for their families and themselves. A working time of 5 days a week and 8 hours a day also can hardly be expected under these circumstances.

A further result of the investigation of the payroll was, together with the different existing organigrams, to achieve a comprehensive overview of the current organisation structure of the Port.

4.6 Adjust Manpower and Equipment to Workload

The work of the expert team for the activities "Review and update operational procedures" and "Review external influence factors on operations procedures" has focused generally on two issues. On one side workshops and an operations work group have been conducted (see "Work Group and Workshop Plan" Annex 3) in order to discuss and work out relevant topics. On the other, a detailed survey including assessment of technical conditions and value has been carried out for the cargo handling equipment and workshops as outlined above. Further based on the existing facilities of the general cargo terminal (number of berths, area, sheds) necessary levels for cargo handling equipment have been determined, considering the Port's activities according to the cargo flow projection (Annex 1).

Activity 6.4 "Develop a commercial policy" and Activity 6.5 "Assist in developing a modern organisational structure of the Port of Baku" have been tackled in the first place with the business field analysis in order to assess the various markets of the Port and business opportunities. In the course of the BFA-workshops and seminars it became obvious that there is still a lack of basic knowledge of international commercial transport economics. This required many excursions into basic terms.

A concept for a new organisational structure of Baku Port has been worked out and submitted as a proposal to the Port. The organisation scheme is currently under discussion by the port management and approval for implementation has been requested with the Azerbaijan Cabinet of Ministers. Basically, the proposed organisation is business field oriented, targeting a decentralisation of personal accountability, and responsibility for cost and profit centres. The proposed organisation structure is not only a re-arrangement of staff compared to the current order, it requires the change to the management philosophy "MBO-Management by Objectives" and needs planning of targets and controlling of results. In the course of the implementation of the computer based accounting system the planning and controlling elements for a new commercial organisation will be regarded.

The BFA results, the development of cargo flow, including necessary investments for port facilities and the proposed commercial organisation of the Port are leading to a concept for commercial policy, setting out priorities and limitations given in current commercial environment of the Port.

5. Project Planning for the next Period

After completion of the first six months period the assignment of the operations expert has ended according to schedule. The currently two resident experts (Assistant to the General Director and Assistant to the Financial Director) are emphasising on the activities on which the Port desires the most input. The Management Training Advisor will continue work for the second term by end of September.

In the course of the daily work a fruitful co-operation has been established between the port management and the consultants. Beside the regular project activities mutual work is carried out and assistance is given for tasks of the management, such as drawing up the annual business plan for the Ministry of Economics.

The activities of the experts according to the project plan for the next period are outlined as follows:

5.1 Privatisation of the Port

As already mentioned before, the privatisation of the Port depends highly on the decisions of the Azerbaijan's authorities. In the course of the development of a new organisation structure for the Port, the separation of national tasks from commercial activities will be regarded. As mentioned above this division is a prerequisite for privatisation of the Port. Further activities are not envisaged in the next period, unless decisions towards privatisation are taken or the assistance is requested by the beneficiary.

5.2 Port Development Plan

The elaboration of a development concept for the general cargo terminal will be the main activity in this area. The experience shows that there is a need for co-ordination between the Ferry Terminal Project and also with the Railway Project concerning the handling of intermodal containers, reaching Baku by railway for various destinations. At this early stage a concept decision for Baku is necessary in order to avoid parallel development investments for container handling facilities. The current capacity of the Port to handle container for railways can be developed and railway container handling could be centralised at Baku Port. Needs of the Ferry Terminal and of the Railways could be combined with the needs of the Port.

Close contact between the ongoing projects of the railways for the "Pilot Train" and the Ferry Terminal Rehabilitation Project are being held. Necessary adjustments and future developments will be closely discussed with the Port.

Generally, the need for co-ordination between the railways, the ferry terminal rehabilitation project and the development plans for the general cargo terminal of the Port shows that a general port development plan becomes necessary for Baku. The changes in transport patterns and the containerisation of cargo transport requires an integrated concept for Baku, where the Port with its cargo handling capacity should play a central role.

Taking this into account, the Tacis Programme is considering, beside the feasibility study for the ferry terminal rehabilitation, to support a further feasibility study on the development of the general cargo terminal of Baku Port, including the development of container handling facilities.

5.3 Training and Manpower

Training

In the course of the project as well as during the seminars it became obvious, that in some areas the knowledge of the port management about essential means of commercially oriented business is rather limited and insufficient. Therefore, the decision was made to conduct more formal training courses with expatriate experts than it was initially planned. This concerns especially all areas related to financial and managerial accounting. An additional training in financial accounting, calculation, budget planning etc. will therefore take place in October.

The port managers shall also get acquainted with investment planning and feasibility calculation.

Furthermore, a training in transport economics and trade and in the international terms of trade is planned.

Because of the lack of experience in purchasing of investment goods, due to the fact that Azerbaijan belonged to the former Soviet Union and thus the necessity to plan and purchase investment goods did not exist, the consultants found it necessary to explain the rules and assessment methods of international purchasing and contracting.

Finally, a seminar in strategic planning is to be held in the end of the year.

As mentioned above (5.1), the consultants decided to implement an accounting and bookkeeping EDP programme. For this computer programme additional training will be provided to the respective port employees in order to enable them to work with this programme.

One big problem of the work of the consultants and the training of port management is, that almost none of the managers have ever visited a western port or even country. Thus, though actively supporting the project, they can hardly imagine another way of work than they are used to, and they have no "vision" of the results to be achieved. It would be of major advantage, if they had the opportunity to spend some time in western ports and to receive training there, both theoretical and practical instructions at the same time. The study tour planned for September is a first step in that direction, but in no ways sufficient.

Manpower

Discussions with the managers of the personnel and training departments showed that neither strategic manpower planning nor a further qualification training scheme is in existence. Employment and training are done on the spot on request of the different departments. The functions of the personnel department in Baku Port differ considerable from the personnel function in western companies. Therefore, a workshop, concerning the elaboration of a more modern personnel function, including manpower, training and budget planning, will be held in autumn.

5.4 Free Port in Baku

A study on the necessary frame work for the establishment of a free port in Baku is, as mentioned above, under elaboration and submission is scheduled for September. In the light of the Free Port of Hamburg, the study will reflect on EU regulations for Customs Code on "free zones and free warehouses".

5.5 Management Information System

Finance and Accounting

This field of activities has gained importance with the implementation of a computer based accounting system. According to the implementation plan (Annex 2) the work of the two resident consultants are concentrating on this activity in order to introduce new appropriate structures and procedures for the financial sector of the Port. The target is to establish a functioning new bookkeeping system together with cost accounting and reporting procedures. The work will emphasise on establishing necessary procedures, training of staff to use EDP-Systems and to utilize modern information systems for port management.

Commercial structuring of the balance sheet is also an issue in the course of the implementation of EDP. For the years 1991 to 1996 an analysis of the Port's financial statements is currently carried out as far as possible.

The introduction of a budget planning system for the Port is planned for the next period. It will focus on budget planning for cost and profit centres, the use of standardised forms and shall create the base for future comparison of performance to budget.

Further in the field of activities for finance and accounting, the asset register will be collated with the physical existing equipment including its allocation to the business units. For the purpose of cost accounting imputed depreciation is planned to be introduced to the asset accounting. Introduction of EDP for asset accounting is not planned at this stage.

EDP - Concept

Further to the physical implementation of a computer based accounting system in the financial sector, an EDP development concept for the Port is under elaboration. Beside the administration, this concept will cover also the operational sections of the Port. Submission of the concept is planned for October within the next reporting period.

5.6 Adjust Manpower and Equipment to Workload

The equipment assessment study is currently under elaboration. Based on the determined level of equipment (Annex 4) the study will indicate the usable equipment including rehabilitation recommendations, and obsolete equipment will be identified and recommended to be removed from the Port. Performance and availability of port equipment depends very much on the maintenance system. In order to cover this issue as well, the study will further indicate workshop requirements for the Port including number and skills of workers and necessary workshop facilities for the proposed equipment levels.

The Port is willing to adopt a commercially oriented organisation structure, therefore it has requested the approval for the new proposed scheme. The structure itself and ways for implementation will be discussed with the Port management. After approval of the Cabinet of Ministers and the Port's decision for the new structure the implementation will be tackled, instruments will be workshops, seminars and also coaching in the daily work.

Tables

Form 2.3 Resource Utilisation Report

Form 2.4 Output Performance Report

Form 1.6 Plan of Operations for the next Period

Form 2.3: Resource Utilisation Report

| Technical Assistance for the Development of Baku Port, Management Assistance and Training | | Project number : TELREG 9304 | Country : Azerbaijan | | Page: 16 |
|--|--------------------------|------------------------------|---|-------------------------|-------------------------------|
| Planning Period : 5/1996 - 7/1996 | | Prepared on: 5 August 1996 | EC Consultant: HPTI Hamburg Port Training Institute GmbH | | |
| Support the Management of the Baku Port in the transition to the market economy, by strengthening the management in introducing new policies and working methods to cope with the new challenges resulting from the new market oriented environment | | | | | |
| RESOURCES/INPUTS | TOTAL PLANNED | PERIOD PLANNED | PERIOD REALISED | TOTAL REALISED | AVAILABLE FOR REMAINDER |
| PERSONNEL | | | | | |
| Assistant to the General Director | 11 Work months | 2,3 work months | 2,19 work months | 4,65 work months | 6,35 work months |
| Assistant to the Financial Director | 12 work months | 2,3 work months | 2,05 work months | 5,05 work months | 6,95 work months |
| Assistant to the Port Operations Director | 6 work months | 3,0 work months | 3,0 work months | 6,0 work months | - |
| Management Training Advisor | 6 work months | 2,0 work months | 1,50 work months | 4,27 work months | 1,73 work months |
| Project Director | 1 work months | 0,23 work months | 0,23 work months | 0,46 work months | 0,54 work months |
| Workshop Moderator | 0,23 work months | - | - | 0,23 work months | - |
| Training Lecturers | 0,69 work months | - | 0,23 work months | 0,69 work months | - |
| Total | 36,92 work months | 9,83 work months | 9,20 work months | 21,35work months | 15,57 work months |
| EQUIPMENT AND MATERIAL | | | | | |
| Personnel Computers | 3 | 0 | 0 | 3 | - |
| Printer | 2 | 0 | 0 | 2 | - |
| Overhead Projector | 1 | 0 | 0 | 1 | - |
| Flip Chart | 1 | 0 | 0 | 1 | - |
| Workshop Boards | 6 | 0 | 0 | 6 | - |
| Workshop Material | 1 set | 0 | 0 | 1 set | - |
| Copying-machine | 1 | 0 | 0 | 1 | - |

Form 2.4 : Output Performance Report

| Technical Assistance for the Development of Baku Port, Management Assistance and Training | | Project number : TELREG 9304 | | Country : Azerbaijan | | Page: 17 | |
|--|-------------------------------------|--|--|--|--|----------|--|
| Prepared on: 5 August 1996 | | | | EC Consultant: HPTI Hamburg Port Training Institute GmbH | | | |
| Output Results | Deviation original plan + or - % | Reasons for deviation | Comments on constraints & assumptions | | | | |
| 1. Establish private activities / Investment in the Port of Baku | -28 % | Privatisation is at this stage not a premier interest of the Port and Authorities. The Port is part of the privatisation programme of Azerbaijan, but decisions towards this have not been taken yet. | Activities have been stopped until further decisions of Azerbaijan's authorities for carrying on with privatisation. | | | | |
| 2. Elaborate and implement port infrastructure investment plan | -5 % | Infrastructure of the Port has to be developed together with the ferry terminal. | A port development plan was not existing. A detailed feasibility study for the development of the general cargo terminal in conjunction with the ferry terminal becomes necessary. | | | | |
| 3. Conduct management training and develop a training scheme | 0 % | - | The training programme has been carried out according to plan, lack of economical and commercial knowledge requires intensive basic training. | | | | |
| 4. Establish a free port in Baku | 0 % | - | The Port has the obligation to provide proposals for establishing a free port. A study for the necessary frame work is under elaboration. | | | | |
| 5. Introduce an appropriate Management Information System | +10 % | Implementation of a computer based accounting system has become the target of the Port within this project. Project activity has been emphasised in this field, extensive assessment has been carried out. | Transition of Azerbaijan's legislation for taxation and commercial activities sets limits. Within the existing framework the activities are carried out. | | | | |
| 6. Adjust manpower and equipment to workload | + 10 % | A commercial organisation structure is treated with priority and a proposal has been submitted. The Port seeks approval from the administration for implementation. | The Port as a governmental entity depends on policy and decisions of the governing administration. | | | | |

Form 1.6: Plan of Operations for the next Period

| Technical Assistance for the Development of Baku Port, Management Assistance and Training | | Project number : TELREG 9304 | | Country : Azerbaijan | | Page: 18 | | |
|---|--|------------------------------|------------|--|-----------------|-----------------|-----------|---------------------------|
| Planning Period : 8/1996 - 10/1996 | | Prepared on: 5 August 1996 | | EC Consultant: HPTI Hamburg Port Training Institute GmbH | | | | |
| Support the Management of the Baku Port in the transition to the market economy, by strengthening the management in introducing new policies and working methods to cope with the new challenges resulting from the new market oriented environment | | | | | | | | |
| No. | ACTIVITIES | TIME FRAME | | | INPUTS | | | |
| | | 1996 | | | PERSONNEL | | | |
| | | Aug. | Sep. | Oct. | EC-Consultant | Counterpart | EQUIPMENT | OTHERS |
| 1. | Establish private activities/ Investment in the Port of Baku | XX | XX | XX | - | - | | |
| 2. | Elaborate and implement Port infrastructure investment plan | | XX | XX | 2 weeks | 1 week | | |
| 3. | Conduct management training and develop a training scheme | | XXXXX X | | 2 weeks | 10 weeks | | |
| 3.1 | Study Tour of Port Manager to Europe | | | XXXX X | 3 weeks | 10 weeks | | 5 Flights Tr. Expenses |
| 3.2 | Financial Accounting/Budget Planning Training | | | XXXXX X | 4 weeks | 8 weeks | | 1 Flight Tr. Expenses |
| 3.3 | EDP-Training for finance and accounting programme | XXXXX X | XXXXX X | XXXXX X | 3 weeks | - | | |
| 4. | Establish a Free Port in Baku | XXXXX X | XXXXX X | XXXXX X | 12 weeks | 12 weeks | | |
| 5. | Introduce an appropriate Management Information System (See Annex 2) | XXXXX X | XXXXX X | XXXXX X | 2 weeks | 2 weeks | | |
| 6. | Adjust Manpower and equipment to Workload | XXXX X | XXXX X | XXXX X | 2 Weeks | - | | |
| 7. | Report preparation | XXX | | | | | | |
| Total: | | | | | 30 weeks | 43 weeks | | |

Annexes

- Annex 1 Cargo Flow Projection for Baku Port and Requirements for the Future Port Development
- Annex 2 Project Plan for Implementation of Computer Based Accounting
- Annex 3 Work Groups and Workshop Plan
- Annex 4 Equipment Requirements - General Cargo Terminal
- Annex 5 Project Activity Plan

Cargo Flow Projection for Baku Port and Requirements for the Future Port Development

1. Developments in Transportation influencing the Cargo Flow of Baku Port

1.1 Development of Transport Modes

Railway transport

The existing network of the railways in Azerbaijan and the adjacent countries as well as the currently ongoing investments in the infrastructure and rolling stock will provide an opportunity for the freight industry for longhaul transportation, especially for point to point traffics such as from Black Sea ports to Baku and vice versa, or to middle Asia destinations. Rail transportation however will be challenged by other modes of transportation:

- General Cargoes will however increasingly be shifted to truck transportation and to containers.
- For overseas transportation of general cargoes, a major share will be containerised within a time period of five to seven years.
- Long haulage of bulk cargoes will develop towards water transport where it is possible.
- Sea borne containerised general cargo for destination Baku or in transit to Central Asian states will be transported by rail or truck depending on the service and security provided by these transport modes. A regular blocktrain connection between Poti and Baku and container handling facilities at Baku would increase the attractiveness of rail transport on this route.
- On carriage of containerised cargo by rail to Central Asians destinations will highly depend on the availability of container handling facilities at these destinations. According to the trade patterns of container transport, such hinterland destinations will be served by truck directly, and after discharging, the empty container will be transported back to the nearest shipping line container depot in order to minimize demurrage costs. Usually these transports are organized by international freight forwarding companies or agents of the shipping lines, who are liable for the container during transport. The empty containers returning to the port may be used for cabotage traffic as far as possible. These cabotage transports are offered usually for low prices, because the round trip of the container has already been covered by the import shipment and the container has to return in any case.

Road Transport

In developing countries the demand for transport capacity is usually higher than the existing railway capacity and the necessary multi modal cargo handling facilities. These gap is filled by trucking companies with the more costly, but the high flexibility and ability to comply with the demand for all kind of transport, even in bad road conditions. Currently the bulk of containerised general cargo import for Azerbaijan is transported by trucks using all possible routes.

Like the railways, the road system will improve in the course of the ongoing investment and maintenance programmes in this field, especially on the TRACECA route connecting to the Black Sea and Turkey via Georgia. In the course of developing multi modal cargo handling facilities in Baku the interchange of cargo from rail- or water transport to trucks and vice versa will increase. Geographically Baku can obtain a gate function for transit transport to Central Asian states.

Containerisation

The containerisation of sea-borne import cargo has already started and transportation to Baku takes place by railway and truck from Poti and by truck from Turkish and Iranian ports. Due to the only seasonal availability of the Volga-Don canal (May to October), the longer transit time and vessel limitation on these canal leads to the conclusion that a regular container sea transport from the Black Sea will be unlikely. Occasionally container transport by barges between Caspian Sea ports and charter shipments of bigger lots of project cargo from north Europe via Volga-Balt Canal or Black Sea will develop, if political obstacles ease and canal dues being competitive.

Development of containerisation for export cargo in Azerbaijan highly depends on the development of container handling facilities there, and availability of empty container equipment for the particular shipments. Generally as closer the manufacturer/factory is located to a shipping lines container depot, as more economical is the FCL shipment. In any case FCL shipments from hinterland origins like the industrial areas of Azerbaijan are competing with the break bulk transport (truck) to the nearest sea port or inland container depot. From there on the container will be stuffed and shipped under LCL/FCL terms.

Water transport

As already mentioned the access to the Black Sea via Volga Don is only available during the summer period from May to October, since ice conditions close the river system from November to April. The draft restrictions limits the cargoes to be loaded on river vessels to approximately 2,500 tonnes.

For Baku Port will be of importance beside the inter Caspian ferry traffic, the cargo handling of bulk shipments such as grain, salt, bauxite, scrap etc. and project cargo handling. Further container transport will develop limited to the inter Caspian Sea trade and occasional charter shipments of containerised cargo.

1.2 Current cargo movements at the general cargo terminal

The current situation of cargo handling at the Baku Port has to be seen in the light of the transition process of Azerbaijan's economy, which recently has passed the bottom of recession. New investments from outside throughout the whole economy are picking up and transportation is increasing. The following table shows the data of 1995, actual of the first 7 month in 1996 and a realistic estimation for the year 1996, based on concluded contracts and realistic judgement.

Table: Cargo Handling Volume - General Cargo Terminal 1995 - 1996

| Container handing (Container) | 1995 | 1996 (Jan-July) | 1996 (12 months) |
|-------------------------------|----------------|-----------------|------------------|
| from/to ships | 1.048 | 570 | 600 |
| from/to trucks | 998 | 1.881 | 2.000 |
| from/to railway | 2.046 | 2.451 | 4.000 |
| Total (Container) | 4.092 | 4.902 | 6.600 |
| General Cargo (tonnes) | 1995 | 1996 (Jan-July) | 1996 (12 Months) |
| dry bulk handling | 96.334 | 35.955 | 100.000 |
| general cargo/break bulk | - | - | - |
| cars/trucks | 185 | 407 | 500 |
| scrap | 16.544 | - | 100.000 |
| other cargo | 24.292 | 17.712 | 50.000 |
| Total (tonnes) | 137.355 | 54.074 | 250.500 |

Source: Baku International Sea Port

2. Conclusions for the future Development of the Port of Baku

Taking into account the above projected development of cargo transport in Azerbaijan and the function of Baku for the TRACECA - Route, in addition to the currently planned rehabilitation and upgrading of the ferry terminal following requirements for cargo handling facilities at Baku port are given:

- A multi modal container terminal for common user in order to comply with the demand of the growing economy and industrial development in Azerbaijan and the concerned Central Asian states. These facilities should include:
 - Facilities for container handling of railway with sufficient capacity for loading and discharging of whole block trains.
 - Facilities for loading and discharging containers for road transport including marshalling areas for trucks and trailers
 - Facilities for ship/shore container handling according to the limited needs
 - Container freight station (CFS) for stuffing and stripping of container including warehouses

- Stacking yard for full import, export and transit container
- Empty container depots as a service for shipping lines to return empties and dispatch for export cargoes

- The existing break bulk and bulk cargo handling facilities need to be upgraded and rehabilitated and improvement of the road infrastructure in order to comply with the developing road transport.
 - Facilities for handling break bulk cargo for projects, i.e. for the oil industry, other upcoming projects and export shipments (chemical industry)
 - Facilities for handling and storing bulk cargoes such as scrap, salt, fertilizers, grains

- Establishment of a free port in Baku covering the required multi modal container terminal, the ferry terminal and all other port cargo terminals. This free port will ease the customs procedures for import and export as well for the transit traffic and give advantages for trading.

Project Plan for Implementation of Computer Based Accounting

Current Situation

Accounting is carried out in the Port manually according to the applicable rules in Azerbaijan. This system is not efficient and is not providing any useful data for the management. Such information like debtors list, liquidity information, costs and revenues per department are not possible to provide regularly. Currently the accounting department is utmost struggling to provide the required quarterly balance to the tax authority in due course.

The assessment work of the expert team lead to the conclusion that an introduction of computerized accounting is the only efficient way to improve the accounting system of the Port. In introducing EDP, simultaneously cost accounting shall be implemented in order to gain transparency of costs and revenues in the Port and to facilitate the management with regular information.

System Decision

EDP systems for accounting are in Azerbaijan not common, During the political changes in the course of independency it was even temporarily not allowed to use EDP. The accounting framework and regulations for corporate balances are close to the Russian system, which lead to the conclusion to look rather for an appropriate Russian software than for a Western system which application would be difficult. With a Russian system there will also not be a language problem concerning documentation and programme handling. Russian is still a common language rather than English.

Market investigations have lead to the most common Russian accounting software "1S" running under Windows. A test application of this software has been installed at the experts office. Extensive tests of this programme showed, that it covers all necessary features including elements for cost accounting. For future extension the software is able to be used in networks.

For hardware the expert team will provide one PC and printer for the initial installation of the accounting system in the Port, which will be sufficient for the beginning. After gathering experience with computerized accounting, further work stations will be necessary according to the usage of the available features of this programme and the work organisation in the accounting department.

Implementation phase

In the course of implementation of such a system into operation, the project has to cover the points, training of staff, system support and commercial restructuring of the current accounting.

Training of staff:

From the beginning of the project it is necessary to involve the whole management and the concerned people of the accounting and administration departments. The necessary training needs to cover the usage and the understanding of the structure of the software, the adjustment of administrative procedures caused by the EDP implementation, handling of EDP hardware and solving of problems and utilisation of the new information for reporting, statistics, corporate policy and management information.

System support:

From the beginning of such a project the technical system support is very important. The following points have to be covered: system availability (soft- and hardware), data security, data backup procedures, coaching for new users, trouble-shooting and problem solving.

Commercial aspects:

In the specific environment of the Port the transition towards market economy needs to be incorporated into this project. In the first place it means to introduce a commercial oriented cost accounting which should be strictly linked to the financial accounting in order to reflect on authentic data. Further based on the new available data regular reporting routines for management information purposes need to be installed in addition to the compulsory reporting for tax administration.

Project Activities of the Port

After the system decision has been made, a general concept has been developed and the Port has employed a computer specialist to accompany the project as counterpart for the experts and to introduce further computerisation, following activities are necessary for this project:

1. Specification of necessary software and hardware
2. Purchasing of the specified software and hardware by the Port
3. Allocation of office space for the implementation project
4. Installation of hardware and software

5. Selection of staff which shall operate the computerised accounting in future
6. Technical assistance and training by a software specialist and the Tacis expert team
7. Building up and adjusting the software application for the Port parameter and Port requirements
8. Determination and incorporation of cost accounting parameters into the system
9. Elaboration of adequate forms and stamps for accounting memorials
10. Elaboration and introduction of necessary administrative procedures for the computer based accounting
11. Develop a filing system for electronic data and paper documents
12. Elaboration and compiling the operations and organisation manual for the computer based accounting of Baku Port, covering:
 - Ports chart of accounts and sub accounts
 - Plan of available transactions
 - Ports plan of cost centres
 - Description of procedures
 - Filing regulations
 - Regulations for updating
13. Start of using the computer based accounting system
14. Review of experience with the system
15. End of manual accounting methods

Project Plan for Implementation of a Computer based Accounting System

| Activities | August | September | October | November | December | January |
|---|--------|-----------|---------|----------|----------|---------|
| 1. Specification of necessary software and hardware | | | | | | |
| 2. Purchasing of the specified software and hardware by the port | | | | | | |
| 3. Allocation of office space for the implementation project | | | | | | |
| 4. Installation of hardware and software | | | | | | |
| 5. Selection of staff which shall operate the computerised accounting in future | | | | | | |
| 6. Technical assistance and training by a software specialist and Tacis expert team | | | | | | |
| 7. Building up and adjusting the software application for the Port parameter and Port requirements | | | | | | |
| 8. Determination and incorporation of cost accounting parameters into the system | | | | | | |
| 9. Elaboration of adequate forms and stamps for accounting memorials | | | | | | |
| 10. Elaboration and introduction of necessary administrative procedures for the computer based accounting | | | | | | |
| 11. Develop a filing system for electronic data and paper documents | | | | | | |
| 12. Elaboration and compiling an operations and organisation manual for the computer based accounting | | | | | | |
| 13. Start of using the computer based accounting system | | | | | | |
| 14. Review of experience with the system | | | | | | |
| 15. End of manual accounting methods | | | | | | |

Budget estimates for the implementation of computer based accounting system

Software

Accounting software "1S", single license including documentation US\$ 60,-

Hardware

1 Pentium PC ,16 MB Ram, colour screen (supplied by the Tacis Project) -

1 UPS (uninterrupted power supply), 600 to 1000 VA US\$ 450,-

1 Laser Printer (HP Laserjet 5) US\$ 700,-

Diskettes, cables, miscellaneous US\$ 100,-

Stationery

Printing paper, fileholders, etc. US\$ 100,-

Training

Computer specialist for "1S" accounting software (supplied by the Tacis Project) -

Total required funds from the Port : **US\$ 1.410,-**

Work Groups

| Date | Group | Participants | Topic |
|-------------|------------|--|--|
| 15 March 96 | Finance | Raya Kasimova, Fikret Pashajev, Aliabbas Badalov, Adil Geidarov, Makhmut Mutalibov | Introduction and overview of the workgroup tasks |
| 2 April 96 | Finance | Raya Kasimova, Fikret Pashajev, Aliabbas Badalov, Adil Geidarov, Ismail Guseinov | Explanation of bookkeeping, cost accounting, statistics, planning accounting |
| 5 April 96 | Finance | Raya Kasimova, Fikret Pashajev, Aliabbas Badalov, Adil Geidarov | Difference between standard chart of accounts and chart of accounts |
| 16 April 96 | Finance | Raya Kasimova, Fikret Pashajev, Makhmut Mutalibov, Adil Geidarov | Fixed assets and current assets, low value items |
| 19 April 96 | Finance | Raya Kasimova, Fikret Pashajev, Aliabbas Badalov, Adil Geidarov | Depreciation methods and periods, costs and imputed costs, VAT and prepaid VAT |
| 23 April 96 | Finance | Raya Kasimova, Fikret Pashajev, Adil Geidarov | Valuation methods of material, balance sheet and profit and loss statement |
| 26 April 96 | Finance | Raya Kasimova, Fikret Pashajev, Aliabbas Badalov, Adil Geidarov, Firdovsi Askerov, Makhmut Mutalibov | Repetition of above topics |
| 30 April 96 | Finance | Raya Kasimova, Fikret Pashajev, Adil Geidarov, Makhmut Mutalibov | Account distribution, analytical accounts in the Port |
| 30 April 96 | Operations | Musa Mamadov, Shirindil Aliev, Wahid Amiraslanov, Rasim Aliev, Shamsaddin Abbasov, Aziz Guseinov, Bairam Namasov | Cargo documentation and its use in international ports |
| 2 May 96 | Operations | Musa Mamadov, Haladin Yusifov, Wahid Amiraslanov, Rasim Aliev, Shamsaddin Abbasov, Bairam Namasov | Documents used in Baku compared with international documents |
| 3 May 96 | Finance | Raya Kasimova, Adil Geidarov, Vera Vasilchenko | Review of the accounts of the standard chart of accounts |
| 7 May 96 | Finance | Raya Kasimova, Adil Geidarov | Review of work group achievements |
| 7 May 96 | Operations | Shirindil Aliev, Wahid Amiraslanov, Rasim Aliev, Shamsaddin Abbasov, Bairam Namasov | Delivery procedures and documents, documentation flow and responsibility |
| 14 May 96 | Operations | Shirindil Aliev, Wahid Amiraslanov, Rasim Aliev, Shamsaddin Abbasov, Bairam Namasov | Storage of cargo in sheds, stacking areas, import, export, transit |
| 3 June 96 | Operations | Shirindil Aliev, Wahid Amiraslanov, Rasim Aliev, Shamsaddin Abbasov, Bairam Namasov, Ali Gasanov | Storage of cargo on contract, service to customers, liability |

Workshops

| | | | |
|----------------|-----------------|-----------------|---|
| 28 February 96 | 1. BFA Workshop | Port management | Analysis of the business fields of the Port |
| 24 April 96 | 2. BFA Workshop | Port Management | Cargo flow and customers of the Port, geographical position of Baku |
| 22 May 96 | 3. BFA Workshop | Port Management | Needs for port organisation structure |

Equipment Requirements - General Cargo Terminal

The following equipment requirements are estimated under the assumption of fully utilization of the assumed facilities, 6 berthes, container yard. Shunting of rail waggons to be carried out by the railways.

Portal Cranes

| | |
|-----------------|----------|
| West side quay: | 6 Cranes |
| East side quay: | 4 Cranes |
| Centre quay: | 2 Cranes |

Terminal Trucks

5 Trucks of which 2 should be equipped with 4X4 drive
15 trailers of 40ft, out of which 6 of 60 to. capacity and 9 of 40 to. capacity
trucks and trailer should be of "Gooseneck Type"

Container Handling Equipment

2 Reachstacker with 20/40ft-spreader (40 to. capacity)
1 Frontloader with 20/40ft-top-spreader, capacity 36 to.

Forklifts

1 Forklift truck 18to
2 Forklift trucks 12to with forks and side spreader for empty container
2 Forklift trucks 6to with forks
4 Forklift trucks 4to with forks
8 Forklift trucks with forks and triplex mast usable inside containers
Auxiliary equipment such as paper clamps, bail clamps etc.

Annex 5 Project Activity Plan

