



# WFP Shipping Service

PROJECT APPRAISAL DOCUMENT II  
As of 30 June 2006





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## INTRODUCTION

The World Food Programme (WFP) was approached by the humanitarian community in Indonesia to provide an integrated and sustainable sea freight service to alleviate the logistical constraints that were causing bottlenecks and delays in delivery of relief, recovery and reconstruction materials. WFP responded by establishing the WFP Shipping Service in October 2005: WFP Shipping Service operates independent of the operations and management of WFP's mainstream food aid activities.

The WFP Shipping Service was established to provide sea transport of abovementioned materials to Tsunami-damaged communities in the less accessible regions of Sumatra, Nias and Simeulue, Indonesia. Since December 2005, the WFP Shipping Service has contributed significantly to the livelihoods of vulnerable communities along the Aceh coast by transporting both temporary and permanent housing-construction materials (see Figure 1) thereby allowing many people who were in tents or other unsatisfactory living arrangements to begin to re-establish a semblance of normal family life, rebuild homes, resume income-generating livelihoods and regain dignity.

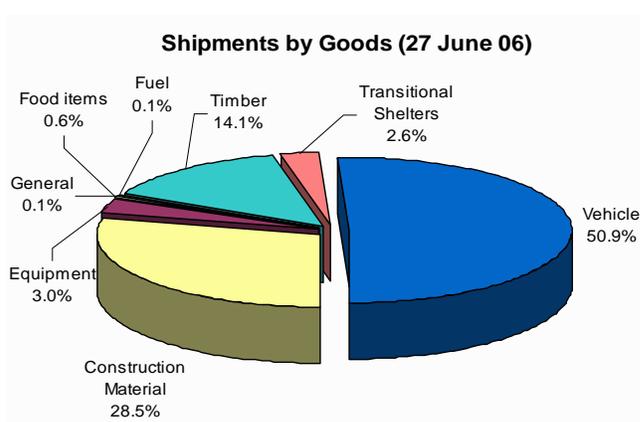
*“Simple reconstruction is not enough. We must build back better. The tsunami recovery effort is the best chance we have to show that we can create a better life and new opportunities for communities in the wake of human tragedy.”*

President William J. Clinton, UN Special Envoy for Tsunami Recovery

This document seeks to provide an overview of the Shipping Service's operations and achievements in the region including the steps it has taken to ensure that its operations contribute to the development of NAD-Nias and to the overall success of the reconstructive effort. Additionally, recommendations are made as to what additional funding is necessary, and how it will be used to sustain the service until 30 June 2007, which is the date up to which current cargo projections are available.

### Building back better

**Figure 1. Source: WFP Shipping Service Cargo Movement Requests (CMRs).**



The WFP Shipping Service moves building materials such as cement, timber and housing supplies along the East and West Coasts of Sumatra Island and to the islands of Simeulue and Nias, serving communities where road transport was made difficult (if not impossible) following the Tsunami. Operating nine landing crafts and three conventional vessels, the Shipping Service currently assists 80 organisations involved in relief

and recovery operations, including United Nations Agencies, non-governmental organisations

(NGOs), and Indonesian government agencies such as the Rehabilitation and Reconstruction Agency for NAD-Nias (BRR). **NB: ‘Vehicles’ in Figure 1 refers to cargo-laden trucks etc.**

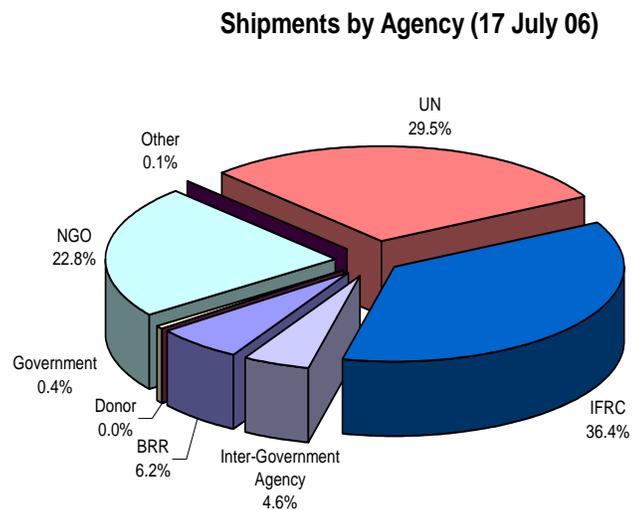
The WFP Shipping Service is more than a shipping operation; it provides logistics coordination, port captains, load consolidation, advice on packaging, equipment (mobile cranes, container handling equipment, fork lift trucks, and beach matting) to ensure that rebuilding materials can be delivered to the communities that need them and it assists NGOs with limited logistics capacities. The work of the Shipping Service is a vital service to the overall reconstruction of Aceh.

Since its inception on 5 December 2005, WFP Shipping Service has delivered reconstruction materials to more than 30 regular locations in Aceh and on nearby islands (Annex G). Total cargo shipped, including construction materials, transitional shelters, vehicles, fuel and timber totals 51,908 MT / 180,755 m3.

Based on inputs from BRR and the humanitarian community, WFP Shipping Service expects to see a surge in the cargo required for movement in the coming months: inputs from 80 actors (NGOs, IOs, BRR, and UN agencies) in the region have been utilised for planning purposes and can be found in Annex A. Furthermore, suggested project completion dates from those actors suggest that projected completion dates stretch through the end of June 2007 (See Annex A). WFP Shipping Service must remain operational until a sustainable service can be provided by commercial operators to circumvent further delays to the reconstruction of NAD-Nias. Data provided in Annex A as well as an appraisal of current shipping cost on similar routes within Indonesia has been used to derive estimated cost recovery tariffs for specific routes (see Annex B). Commercialisation of the shipping routes served by the WFP Shipping Service is in line with the BRR strategy for commercialisation of the routes as well as the MDF requirements for funding of the WFP Shipping Service beyond September 2006. Annex C contains a range of Cash Flow Projections based on a range of variables: current WFP Shipping Service professional opinion favours a model based on 50% of projected cargo (Annex A) being realised within the timeframe.

WFP Shipping Service will continue to build the capacity of local operators and encourage local commercial operators to enter into the market. In order to ensure a smooth transition, institutional knowledge about the routes and ports served, safety considerations, logistical challenges, environmental considerations and technical procedures will be passed on to local government port and harbour authorities at a time to be determined in consultation with BRR. Because the current project has been implemented with due consideration to environmental,

**Figure 2. Source WFP SHIPPING SERVICE Cargo Movement Requests**





## Shipping Service

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economical and social aspects of the recovery effort, the introduction of commercial services must be a carefully planned and executed effort to ensure that steps are taken by local operators to protect the fragile environment in the affected area.



**A. TECHNICAL**

**Reaching Vulnerable Communities**

- Destroyed
- 141,000 homes
  - 2,200 schools
  - 595 health centres
  - 2,676 bridges
  - 1,585 km road

The Aceh region was the nearest land mass to the epicentre of the earthquake and bore the brunt of the Tsunami’s epic force on 26 December 2004. In cooperation with the BRR, the international community is committed to restoring homes and community infrastructure for more than 141,000 people living in 353 affected villages. It is a massive task which will require extensive logistical support.

The WFP Shipping Service has the unique ability to deliver goods to informal landing sites and coastal communities without official ports. It has so far contributed to the rebuilding of 25,500 houses, delivering crucial construction materials and supplies. Without the materials brought by the Shipping Service, the communities in these areas would today be in a more vulnerable position as commercial operators have been unable to access these areas.

Since its inception WFP Shipping service has provided a highly professional service to 74 users, reaching as many as 30 locations in Nanggroe Aceh Darussalam (NAD) and Nias. Currently the service has a fleet of 9 Landing Craft (LCTs) and three conventional vessels, having moved a total of 45,000 MT of cargo. One main priority of the WFP Shipping Service is to coordinate and manage the implementation of much needed emergency rehabilitation of discharge ports and landing sites that are utilized by the humanitarian community. The goal is to ensure that these facilities that were devastated during the Tsunami are in good enough condition to receive the huge volume of humanitarian cargo that is being transported for the relief effort. In addition, the infrastructural improvements of the ports and landing sites in Meulaboh, and Ulee Lheue (Banda Aceh) have a longer term benefit for the Indonesian people, as they will continue to use the ports for commercial trade in the future. All improvements have been coordinated with BRR and the United Nations Development Programme (UNDP) Ports Programme. (Meulaboh port reconstruction December 2005 is pictured below.) It should be noted that these temporary rehabilitative measures are complementary to the BRR/UNDP TRPRP (Tsunami Recovery Ports Redevelopment Program) for NAD Nias and provide only for temporary enhancements to enable functional access for the immediate needs. Many of these improvements will be supplemented by the TRPRP, replaced by TRPRP ports or become redundant beyond the reconstruction period: hence, any handover arrangements and dependent upon the timeline of the TRPRP and BRR.

WFP Shipping Service’ terms of reference are to fill a gap in logistical capacity to enable other actors to address the issues of reconstruction and capacity-building for re-development of the local economy and local communities. Nevertheless, capacity building is taking place within this ‘enabling service’. WFP Shipping Service is developing local capacity through planned nationalisation of positions and a planned exit strategy that commercialises routes and hands-over equipment to local authorities. Local authorities are being engaged in the handover process, undergoing equipment-operation training, equipment-maintenance training and being provided with general best practice guidance for sea freight operations.





The provision of such a service is consistent with WFP's mandated role as the lead agency for logistics according to the *ad hoc* Inter-Agency Standing Group Principals' Meeting, "Strengthening Humanitarian Response," held on 12 September 2005. All activities undertaken during the project life-cycle are in accordance with WFP's Regulations and Rules.

### **A Continuing Need**

Despite the considerable progress in reconstruction efforts over the past year, more than 47,000 houses are still scheduled to be rebuilt in the Tsunami-affected areas. Major reconstruction of Aceh's infrastructure, such as roads, bridges and ports has yet to commence, including the rebuilding of the critical western Aceh coastal road that was almost completely washed away by the Tsunami. As the designated lead agency for all UN logistics, WFP is committed to UN reform efforts and believes the continued operation of the WFP Shipping Service is crucial to providing the required support to all organisations and agencies involved in rebuilding Aceh and Nias. The current pace of reconstruction indicates the need for the WFP Shipping Service to continue at least until 30 June 2007.

The WFP Shipping Service will strive to provide a service to users as long as funding is available, and while viable commercial alternatives are not. WFP will actively encourage the participation of local Indonesian commercial entities as well as international commercial operators in taking over the critical role of delivering Aceh's reconstruction materials. (See Annex I.)

### **Detailed Project Description**

#### ***Cargo Movements***

Based on original figures provided by BRR, an expected 600,000MT of shelter and related construction materials was forecasted for shipment into NAD-Nias over the twelve month period commencing 01 Nov 2005. During the initial stages of operation in December 2005, 140,000 MT of cargo was confirmed by Users as being available for shipment during 2006. However these projections were inaccurate indicating the lack of planning capacity and justifying the need for a demand driven service. Graphical representation of total cargo moved, usage of the service by user, and port allocation can be found in the Annex A. With regard to the future, at the time of writing this document, WFP Shipping Service has confirmation that a minimum of 224,908 MT will be available for shipment through June 2007, provided funding is in place to continue the Shipping Service.



### *Cargo Handling*



Due to the lack of port facilities and need to reach areas of the island which are inaccessible by road, beaches have been used to berth vessels on the islands of Pulo



Aceh, Simeulue and Nias utilizing light weight, easy to deploy/redeploy special purpose matting (dura-mats). This has allowed for trucks to access the vessels up to 250 metres ashore. In addition, two container top-lifters have been procured to facilitate container handling. Two mobile cranes have been hired and twenty fork-lift trucks purchased with specially trained Indonesian National staff operators that are being deployed to the ports of Medan, Ulee Lheue, Kolok Baru (Simeulue), Calang and Gunung Sitoli (Nias). Some of these fork lift trucks have been and will continue to be used on board the Landing Craft Tank (LCT) to help with the loading and offloading of cargo.

### **Evolution of the Overall Operation**

The WFP Shipping Service was formed by a WFP Special Operation (SO 10498.0), which was approved by the WFP Executive Director on 24 October 2005. USD 3 million was received from the WFP Working Capital Fund to implement the SO which included:

- a. Charter of the first vessel to commence operations on 05 Dec 2005.
- b. Placing the order for mechanical handling equipment and other items with significant lead-times.
- c. Engaging staff.

In March 2006 the first portion (60%) of the USD 24.7 million from the Multi Donor Fund for Aceh and Nias (MDF) was received, with the balance deposited in April 2006. From these proceeds the WFP Working Capital Fund was repaid in full.

In recognition of the fragile nature of the existing logistical infrastructure in NAD-Nias along with the lack of firm planning data on which to build a logistics model, the need for a demand-driven, flexible supply chain solution was identified in order to meet the fluctuating needs of the users.

Due to long lead times in the procurement process, the full range of equipment necessary to boost the infrastructure of the devastated ports in NAD-Nias had to be procured immediately. The process was however carried out incrementally, with an initial procurement of limited forklifts and the charter of vessels based only on firm cargo offerings. Capacity has been expanded as needed to accommodate actual requirements. Costs such as vessel charter fees

and fuel consumption, which make up the majority of operating costs, are only committed to when demand is apparent.

Additional significant savings have been achieved through the use of common services, such as ICT, security, office space and staff accommodation, being shared with WFP Indonesia, the UN Country Team and UNORC.

### *Scope of Services*

Apart from the core business of shipping cargo, WFP Shipping Services provides numerous additional services within its logistics coordination role as follows:

- a. Consolidation of cargo (in Belawan/Medan).
- b. Advice regarding packaging and presentation of cargo for transport
- c. Advice on customs clearance and regulations.
- d. Supervision and accounting for the loading of vessels.
- e. Cargo handling (physical load/discharge of cargo).
- f. Survey of proposed landing sites.



### *Current Fleet and Operations*

Currently WFP Shipping Service is operating 9 Landing Craft (LCT) and three conventional vessels, of which all are Indonesian flag and operate with “Class” and P & I Club coverage.<sup>1</sup> This fulfils the International Maritime Organisation (IMO) and flag-State requirements. Offices have been established in Belawan, Banda Aceh, Calang, Sibolga, Nias and Simeulue. Each office is run by a Port Captain and logistics support staff.

### **Risk Management Strategy**

The inherent risk of the project lay primarily in the large initial capital investments required to launch the operation and ensure that the infrastructure, equipment and human resources were in place to allow for the service to run smoothly even though WFP did not have control of the pipeline, and was relying on the procurement plans and supply chain management of the User organisations. Initially outreach efforts proved very challenging as the majority of IOs, NGOs and agencies could not offer concrete planning figures, which left the Shipping Service with only a partial overview of the entire supply pipeline.

The Shipping Service (along with the BRR) conducted an outreach campaign to educate participating agencies in the intricacies of the operation and create awareness about the

<sup>1</sup> Vessels with “Class” adhere to safety standards for the construction and maintenance of ships in liaison with flag states, which are established by Classification Societies. It should be noted that all insurance companies require valid class with an approved classification society before underwriting a risk. P&I, or Protection and Indemnity, Clubs protect against third-party liability not recoverable under standard H&M policies such as personal injury, liability arising from the carriage of cargo, liability for damage to fixed or floating objects etc...



services that are available to them. This effort served to attract new users to the service while creating a more transparent view of how much cargo the participating agencies have to transport. This knowledge helps both the Shipping Service and the user. With the input from agencies, the Shipping Service can plan for fully loaded vessels, therefore utilizing the assets of the service to their full capacity. Additionally, it gives a broader overview of the fleet requirements so that the market can be surveyed in advance and vessels chartered on an as-needed basis, as the chartering of a vessel can often be a lengthy process. Users therefore receive greater assurance that cargo can be moved as soon as possible after it is ready for transport.

The awareness campaign is ongoing and users are continually encouraged to submit planning figures to the Shipping Service. A three-month planning template can be found on the WFP Shipping Service website (<http://www.wfpss.org>) along with the Cargo Movement Request (CMR) and specific instructions regarding the process of booking.

### **Commencement and Exit Strategy**

On the basis of 40,000 MT confirmed cargo, WFP Shipping Service initiated operations with the charter of one LCT and a lean staff to support the shipment of cargo for the Temporary Shelter Programme. As earlier noted, advanced funding in the amount of USD 3 million from sources within WFP was utilized for this purpose. The operation has since gradually expanded its fleet and staffing requirements to meet the demand of its users.

Close coordination with potential users revealed that numerous procurement arrangements with suppliers, which included delivery to the project site, had been made prior to the inception of WFP Shipping Service. In some cases contracted rates were adjusted to exclude the price of transport and delivery was carried out by WFP Shipping Service (UNHCR timber from Kalimantan and Surabaya to Nias). With prior approval from UNORC and BRR, some material was shipped on behalf of the supplier. In most cases for the sake of transparency users were advised that ownership of the goods should pass to the user before loading of the vessel. These arrangements were very carefully monitored and a number of attempted abuses were reported to the BRR Anti-Corruption Unit for investigation.

As part of a deliberate strategy to conserve funding, ferry services, land transport and warehousing facilities offered by operational logistics organisations such as the International Organisation for Migration (IOM) and ATLAS Logistique (a French logistics NGO funded by ECHO) have been, and continue to be, utilized to the fullest extent possible to defray costs and create a truly coordinated multimodal logistics network for the reconstruction effort. WFP Shipping Service continues to coordinate with these actors to identify and fill any gaps in the supply chain while at the same time seeking to identify commercial partners to whom transferral of routes can be suitably timed.





### ***Integration of Shipping Services***

*At the end of the 1<sup>st</sup> Quarter of 2006, IOM discontinued the ferry service between Sibolga and Nias. During the 2<sup>nd</sup> Quarter of 2006 WFP Shipping Service took over this route and continued to operate this free service until August 2006 (upon the request of BRR): commercial carriers have returned to absorb cargo movement requirement on this route. Similarly, when funding for ATLAS Logistique's unique cargo consolidation and small land transport operations was drastically reduced at the end of March 2006, WFP Shipping Service immediately stepped in to fill the gap. WFP Shipping Service established a cargo consolidation service in Medan and brought supplementary vessels into the WFP Shipping Service fleet.*

BRR has suggested that ocean transport services for the delivery of construction materials to the west coast of Aceh and the islands will be required throughout the recovery phase of 2005-2009. WFP Shipping Service could continue to provide a service to users as long as funding is available, all the while actively encouraging participation of local Indonesian commercial entities as well as international commercial operators. The goal, however, is to facilitate a smooth transition and hand-over to such organisations, in accordance with a time frame that should be agreed with BRR. As commercial operators begin to enter the market, WFP Shipping Service will offer guidance and support where and when possible.

WFP Shipping Service will continue to actively encourage the participation of local Indonesian and international commercial operators. Cost recovery will help to establish the market on a more commercial basis; users' meetings will continue to provide the users with a voice on the service provided; the temporary up-grading of ports and the provision of materials handling equipment will continue; dialogue with INSA (the Indonesian Ship-owners Association), individual Indonesian ship owners/operators and logistics organisations will be maintained.

At the expiration of this SO, the equipment procured by WFP Shipping Service to provide the service will be handed over to local Indonesian governmental authorities, as designated by the BRR. Because the ports in the affected areas have either been destroyed or sustained significant damage, the Shipping Service intends to transfer ownership of this equipment to the various port agencies with whom it works in order to build local capacity in the ports. Any other improvements that the Shipping Service may make such as landing ramps, temporary jetties and related items will be similarly transferred.

### ***Operational Structure of WFP Shipping Service***

The WFP Shipping Service works under the general guidance of a Board of Users, chaired by the UN Recovery Coordinator or his representative, who will meet on a regular basis to review the performance of the WFP Shipping Service and provide new directions if operational exigencies require. The Board is comprised of agencies and NGOs using the services of the WFP Shipping Service. WFP's Shipping Unit in Rome has operational oversight of the WFP Shipping Service, as later detailed.

Part of the philosophy of providing a lean, agile demand-driven service is an ongoing "right sizing" exercise. WFP Shipping Service currently employs 91 staff comprising 21 different





nationalities, and made up of 53 National staff and 38 international staff. The WFP Shipping Service is comprised of a Rome-based Project Manager, Head of Service, five unit heads and 10 offices located at the various Points of Entry and Landing Sites. Once a critical mass is achieved, the number of staff employed is directly related to the tonnage to be shipped and the number of separate landing sites to be served. The Head of the WFP Shipping Service in Banda Aceh is responsible for the daily management and supervision of head of units. He liaises with and reports to the Recovery Coordinator for Aceh and Nias in Banda Aceh as well as meets with the Board Members on a regular basis. Please see Annex F for detailed organisational charts.

The five operational units are designed to ensure a smooth process and full compliance with the directions issued by the Board. They coordinate the overall movement of cargo and liaise with users to keep them informed. In addition, they cover all administrative and human resources functions, applying WFP's financial rules and regulations. All units are responsible for capacity building of local staff members.

### *Organisational Units of WFP Shipping Service*

**Logistics Unit:** The logistics unit is responsible for collecting, receiving, processing and providing information on all aspects of logistics in Sumatra. This information is essential to the Shipping Operations unit for the purpose of determining the best use of Landing Craft. The team will provide any information on transport issues and bottlenecks at the Landing Sites. This section will also be responsible for engineering staff, maintaining and improving port facilities and for supervision of ICT operations. The information is subsequently analysed and used for planning and reporting purposes by the Funding Liaison and Reporting Unit (below).

**Shipping Unit:** The Shipping Unit manages all vessels and issues a shipping schedule upon receipt of relevant information from the Coordination and Pipeline sections. They coordinate the transport of cargo to the stacking yards at the loading ports and follow through to the discharge port. The team is in constant contact with the users and actively seeks information on purchase orders complete with details such as quantity, description of cargo, packaging, weight and schedule of delivery at Points of Entry. Additionally, they are responsible for notifying all offices at the load and discharge ports of ETAs and cargo composition. Information on ships schedules will be publicly advertised through a website to be designated for this purpose.

**Finance and Administration:** The Finance and Administration Unit is responsible for all administrative matters including the payment of invoices. The team also provides support to all offices along the coast and ensures that all responsible parties are updated with the information regarding disbursements and statistics on cost per ton. Additional personnel have been assigned with specific Cost Recovery Financial tasks – invoicing, pursuing late payments and reconciliation of bank statements and invoiced receivables. Details of the Cost Recovery process for both Sea User Logisticians and for Sea User Finance Officers have been publicised through Sea User Group Meetings and are available on-line at [www.wfpss.org](http://www.wfpss.org).









## Environmental Management Plan

An Environmental Management Plan covering potential impacts of the limited and transient activities of the project has been implemented and will be up-dated once the findings of the evaluation are available. To ensure an efficient and transparent environmental management plan, all processes will be conducted in accordance with the WFP Environmental Review Guidelines<sup>2</sup>.

## Consultation

Meetings to discuss this project and its impacts and benefits from an environmental perspective have been conducted with the British Red Cross, German Red Cross, International Federation of the Red Cross and Red Crescent, International Rescue Committee, and the Office of the United Nations Recovery Coordinators in both Banda Aceh and Aceh Jaya. WFP has also met with the Regency Chief for the Kabupaten of Aceh-Jaya. All parties remain in favour of the continuation of this project.

## C. SOCIAL ASPECTS OF THE PROJECT

### Contribution to Livelihoods

The project plan envisions significant positive social impacts on beneficiary communities. As large areas of the coastal plain were severely damaged by the tsunami and subsequent earthquake, the population has been reduced to living in extraordinarily poor conditions. Without immediate improvements to improve access by these vessels, the living conditions of the population would almost certainly have deteriorated further.

WFP Shipping Service has the unique advantage of calling ports and landing sites that are not officially recognized. These locations often present dangerous conditions for the vessels including coral reefs and heavy swells along the leeward shore beaches. Without the expertise of the professional Port Captains that WFP Shipping Service employs, the communities in these areas would be in a more vulnerable position as commercial operators would be unlikely to be able to access these areas.

In addition, the WFP Shipping Service is working closely with many organisations to provide a means for importing agricultural support materials such as seeds and fertilizer to remote locations, and, in turn, to export the harvest to market.

### *Gayo Mountain Cooperative*

*The Gayo Mountain Cooperative has seen a return of many of the 3,000 registered farming members to the Central Aceh region. These farmers, who expect to grow 10,000 MT of coffee over the next three years, have asked for the logistical support of the WFP Shipping Service in order to re-establish an active trade locally and internationally. This is the first time that a local Cooperative would retain proceeds from sales on the world market.*

<sup>2</sup> Programme Guidance Manual: Environmental Review Guidelines.  
[http://home.wfp.org/manuals/pg\\_environ/Default.htm](http://home.wfp.org/manuals/pg_environ/Default.htm)





### *Gender Equality*

WFP Shipping Service strives to mainstream gender in the planning and implementation of the project. In the field of recruitment, affirmative action is taken to attract female candidates to all posts advertised. Each vacancy announcement specifically stipulates that suitably qualified women will be given preference. Gender balance remains in-line with that of international norms in the shipping industry.

### Overcoming Logistical Challenges to Create Access to Remote Areas

The roads are extremely vulnerable and often impassable due to weather conditions and collapsed bridges, as is the case seen with the road between Calang and Lamno during June 2006 pictured right.



As a result, basic food supplies are still arriving in the area by LCT, almost 18 months after the tsunami. Reconstruction of the coastal highway is not scheduled to commence until the end of 2007 and is also likely to generate significant sea cargo requirements for machinery and materials. Vehicle axle weight restrictions are not enforced and as a result, bridges are often compromised by the passage of over-laden trucks (as seen in the picture below). It is a shared responsibility amongst donors, agencies, and the NGO community to avoid road and bridge deterioration by encouraging shipments by sea.

WFP Shipping Service is hopeful of the continuing BRR / MDF support of sea cargo rather than land-based transport. It is a common shared responsibility (amongst donors, agencies, the community and organisations) to, if not avoid road / bridge deterioration at least reduce the deterioration rate. This means encouraging bulk sea cargo rather than increasing reliance on the stressed roads and bridges with small loads packed into multiple land vehicles.



Bridge 20km south of Calang failed 9 Mar 06 while being crossed by an overloaded truck.

In addition to shelter supplies, the Shipping Service enables the import of construction supplies necessary to redevelop sectors other than housing. While the immediate emphasis has been placed on housing, it is also vital to rebuild community centres, government buildings, mosques, water and electrical distribution, sanitation, hospitals, and schools. Such additional infrastructure is essential to community sustainability and serves to promote economic growth in the region. Without immediate improvements to the ports, which serve as the main gateway to these communities, living conditions will remain unbearable or perhaps even deteriorate further. The shipping service has been active in constructing temporary piers at a number of locations, permitting landing craft to operate more efficiently in the servicing of remote areas.



*Shipping Service temporary discharge facility at Sinabang, Simeulue.*

### D. ECONOMIC ASPECTS OF THE PROJECT

Immediate economic benefits resulting from the establishment of this service can be seen in the reconstruction and rehabilitation of ports and landing sites in the areas worst – affected by the Tsunami. The building of residential housing and stable communities will provide a solid foundation for economic growth in these effected areas. The Shipping Service will also stimulate local markets by creating jobs, training local staff, procuring local goods and services and promoting trade by establishing sea routes that can be later serviced by local companies.

#### **Capacity Building of Human Resources**

In addition to the infrastructure contribution, the Shipping Service strives to up-grade the skills of local staff members who are directly employed under the project. This serves to create a boost in the local employment sector while improving institutional knowledge of local staff. For example, two Acehnese staff members have left the operation to pursue further education; one staff member was awarded a Fulbright Scholarship in the USA and another has been accepted to University in Japan to pursue a Masters Degree.

#### **Stimulating Local Markets**

Procurement is encouraged on a local level in an effort to generate business for local service providers and business owners in areas such as transportation, security, catering, and housing. Wherever possible, services and material to sustain the WFP Shipping Service are procured locally.

#### **Promoting Trade**

By establishing regular sea routes, WFP Shipping Service is demonstrating the potential for the growth of a coastal sea-borne trade. From the outset the WFP Shipping Service has encouraged the participation of local commercial operators in the Shipping Service, establishing a tariff on the coast in cooperation and consultation with interested partners in the local community. Apart from its core function of providing a short sea coastal operation, the Shipping Service therefore seeks to create the foundations for a sustainable shipping trade by providing the infrastructure improvements and can assist in ensuring the future of a long-term shipping service in this region.



### E. INSTITUTIONAL SUPPORT

It is not the principal objective of the project to enhance or improve any specific institutional entity but rather to assist in developing a means to restore a basic sea transportation infrastructure and import recovery cargo until the commercial sector is able to resume their normal operations. It is anticipated that once commercial operators see the viability of this operation, there will be great interest on their part to participate. WFP Shipping Service will therefore endeavour to encourage and develop the commercial sector whenever and wherever possible.

#### **Indonesian Market**

With one voyage charter exception, all the vessels chartered all vessels chartered by the Shipping Service have been Indonesian flag. There are approximately 890 shipping companies registered with the Indonesian National Ship Owners' Association (INSA). 168 LCTs and 844 conventional cargo vessels are registered for use. Domestic controls on Indonesian flag vessels/LCTs are less stringent than in other countries therefore creating a greater risk of sub-standard vessels. Increase in demand in the coal trades in the last 4 years has kept many LCTs and tug/barge combinations employed servicing this trade, reducing the amount available on the open market and raising their freight rates. Many LCTs are on regular medium and long term contracts and many owners are reluctant to remove them from these contracts. Additionally, the modern conventional vessels (1990 or newer) under Indonesian flag are fully employed in providing feeder services to the container trade. As a result, users would have to pay high premiums to the owners to justify leaving this trade for commercial business.

It is relevant to note that international owners of LCTs are reluctant to operate in Acehnese waters as the area is considered dangerous in terms of weather and the risk of piracy/armed robbery: 40% of world-wide piracy reported in 2005 occurred in Indonesian waters. WFP Shipping Service believe that the service's operational activities in, and around the islands, has raised the profile of the region as a commercial opportunity and stimulated interest among potential participants.

#### **WFP Shipping Service Places an Emphasis on Safety**

WFP Shipping Service recognizes the need to charter vessels with "Class," placing an emphasis on safety and security in all operations. Sub-standard vessels are a risk for both the crew and cargo on the high seas. As many as 7 vessels have sunk in Indonesian waters in the past year with consequent loss of life and material. These losses justify WFP Shipping Service's insistence on chartering ships with Class.

Experienced Port Captains working for the Shipping Service inspect all vessels before chartering them for the operation to ensure that they meet safety requirements. It is a major concern that users utilizing the Shipping Service are unaware of required specifications and safety standards in the shipping industry in general. As a result, these users will have no guidelines to follow as commercial operators begin to enter the market. They may lack the ability to identify whether the services they contract through local operators are safe or present an insurable risk.





As part of its exit strategy and handover to commercial operators, WFP Shipping Service will assist prospective users in their ability to assess the suitability and safety of vessels and services on offer. As local operators begin to survey the market and determine the feasibility of offering services in NAD-Nias, WFP Shipping Service is working with the Indonesian National Shipowners Association to ensure that only vessels with Class supported by adequate insurance are considered.

## F. FINANCIAL

### Introduction

A thorough financial analysis of the project was presented in the original Project Appraisal Document dated 11 February 2006 highlighting; projected annual expenditures; financial costs of operations and maintenance; systems for financial management including accounting and budgeting, management information systems, financial reporting and auditing; and performance measurement.

The first grant of USD 24.7 million was estimated to last until August 2006 and provide the funds for the required Capital purchases. These funds were expected to support the ocean transportation of 40,000 MT of construction material. In the period 05 Dec 2005 to 30 Jun 2006 a total of 43,141 MT / 148,695 m<sup>3</sup> was shipped and USD14.63 million remains uncommitted at that time.

### Financial Planning

Given the lack of pipeline control, the WFP Shipping Service has therefore opted for a demand driven basis whereby the size of the organisation, the fleet, and the amount of fuel required is driven predominantly by the amount of confirmed cargo on hand to be moved.

One of the constant challenges facing WFP Shipping Service is that it does not control or receive a clear picture of the entire supply pipeline for reconstruction projects. Planning information, such as it is, has proven to be unreliable.

The projected tonnages used in establishing what funds are needed to take the WFP Shipping Service to June 2007 are derived from assumptions that present Agency and NGOs cargoes will continue to be generated at the same rate, and from a combination of figures provided by BRR Housing & Settlements Division, NGOs and UN Habitat Milestone data as at 30 Jun 06. The assumption is made that WFP Shipping Service will move, in the case of Options AA, BB and CC of Annex C ....100% of the projected total of 487,842 MT, and in the case of Options DD and EE of Annex C .... 50% of the sum total of cargo projected amounting to 243,921 MT. *As already mentioned*, dedicated finance personnel have been assigned duties associated with the Cost Recovery Process. Details of the process for both Sea User Logisticians and for Sea User Finance Officers have been publicised through Sea User Group Meetings and are available on-line at [www.wfpss.org](http://www.wfpss.org).

WFP Shipping Service is has completed the establishment phase of its existence and the capital intensive period virtually over. Using the data on projected cargo above, it is







### Financial Management

To ensure efficient and transparent financial management of the operation, all processes have been conducted in accordance with WFP Rules and Regulation including: World Food Programme General Regulations General Rules Finance Regulations Rules of Procedure of the Executive Board<sup>3</sup> - Financial Regulation Sections: F.R. III; F.R. XII; F.R. XIV and the WFP Consolidated Finance Manual<sup>4</sup>: Sections 3, 5, 7-12

Hard copies of both the General Rules and Financial Regulations and the Consolidated Finance Manual have been provided separately to the World Bank. (See Annex J)

### G. COMMERCIAL

The commercial shipping industry in NAD-Nias, particularly the coastal trade, historically lacks structure, training and the ability to compensate and therefore retain personnel with the right skill sets. A programme of fundamental institutional reform in this area is necessary before any significant improvement in these services can be anticipated.

INSA has stated that the poor management of small domestic ports is a constraint on development. The Ministry of Transport and the state port operator, PT Pelindo, have allowed the proliferation of ports country-wide, which inhibits the provision of international standards of service. Among other things, this creates an environment where smuggling on a massive scale can thrive.<sup>5</sup>

Involvement of the private sector in providing a shipping service to NAD-Nias has been encouraged from the onset. The project has already attracted the interest of several operators and continues to assist them in developing a freight rate structure that will provide for a reasonable financial return to the operator while simultaneously providing a rate that will be sustainable by the User community.

<sup>3</sup> World Food Programme General Regulations General Rules Finance Regulations Rules of Procedure of the Executive Board: <http://docustore.wfp.org/stellent/groups/public/documents/other/wfp003085.pdf>

<sup>4</sup> WFP Consolidated Finance Manual: [http://home.wfp.org/manuals/fs\\_consolidated/manual.asp](http://home.wfp.org/manuals/fs_consolidated/manual.asp)

<sup>5</sup> Witular, Rendi Akhmad. "Government blamed for messy port management." *The Jakarta Post* Vol. 24 No. 069, Tuesday July 4, 2006 page 1.





### CONCLUSION

To ensure that a cost-efficient, reliable and flexible transport service to the region of NAD-Nias remains available to agencies participating in the reconstruction effort, WFP Shipping Service requires additional funding to remain operational beyond September 2006. The introduction of cost-recovery will serve to fund a portion of the operating costs but proceeds will not be received in the time frame required or with the degree of certainty needed, to ensure adequate funds remain available on time to sustain the service. Refer to Annex C Models of Projected Cash Flow.

WFP Shipping Service has compared the various scenarios in Annex C and is convinced that the most likely scenario is DD. Hence, based on cargo amounting to 243,921 MT, 50% of the figure projected by BRR and the humanitarian community, USD26 million is needed to keep the service running through June 2007. However, in view of the prevailing funding constraints of MDF, care has been taken to examine many alternatives (see Annex C). It is recommended that the minimum prudent amount of the grant should be USD15 million. This is based on the assumption that only 50% of the projected cargo is available to be shipped by WFP Shipping Service and cost-recovery is implemented as planned beginning 1 August 2006.

If funding is not granted, agencies and the BRR will be faced with the likelihood of an immediate break in the supply chain, causing further substantial project delays in the region.

*“When it comes to houses, it is not just constructing houses. We are preparing communities.”*

*“If the supply-chain fails our ability to deliver houses also fails, and in turn our ability to meet community expectations will fail.”*

Kuntoro Mangkusubroto, Director, Rehabilitation and Reconstruction Agency for NAD-Nias (BRR)