

# **INVESTING IN AFRICA'S PORTS - FACTORS FOR SUCCESSFUL PARTNERSHIPS**

## **- A PORT OPERATOR PERSPECTIVE**

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***16<sup>TH</sup> INTERMODAL AFRICA***

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***EXCELLENCE UNCONTAINED***

## Agenda

### ICTSI

#### Market Need

- Value proposal
- Kenya and Tanzania examples

#### The Concession Process

- Must-dos
- Project Bankability
- Identifying the Best Fit Operator

#### Project Examples

## International Container Terminals Services Inc. (ICTSI)

- Started in 1988 to run Manila International Container Terminal (MICT - see picture) in the Philippines.
- Has expanded globally to currently operate 30 terminals on 6 continents
- An independent terminal operator
- Listed on the Philippines Stock Exchange
- Turnover of USD 1 bill per annum, EBITDA of USD 450 mill and net-income of USD 200 mill



# Market Need

**Clear commercial need is the number 1 focus**

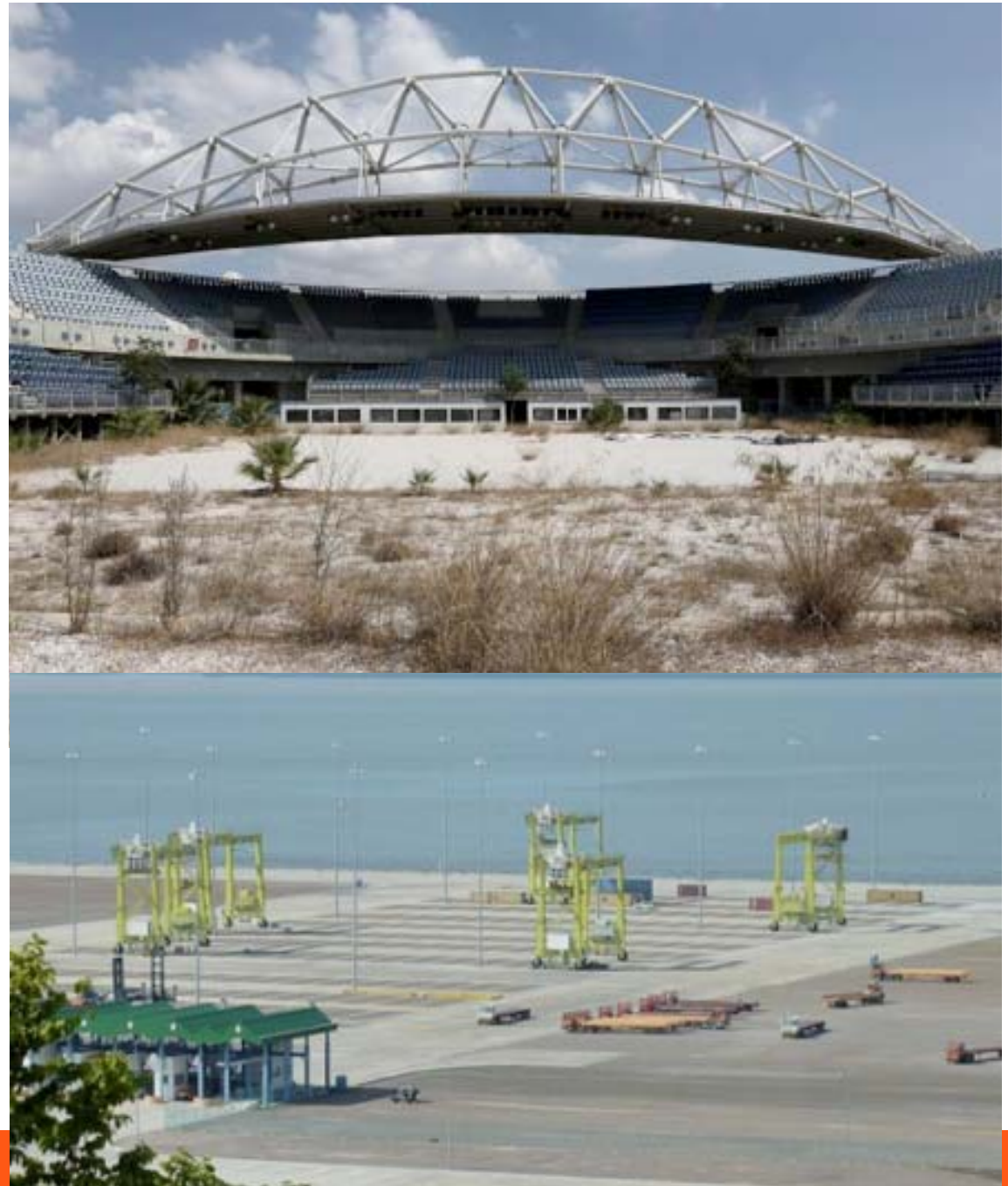
## **Value proposal:**

What is the value of a new port, what will it deliver to customers?

- New capacity needed for growing volumes
- Specifications to serve larger vessels

## **Demand-Supply**

- Demand - cargo base realism: current and future cargo flows
- Supply - assessment of other ports serving same market



# Market Need

## Existing ports - Mombasa and Dar Es Salaam

### Proven ports

- Customers already in place
- Shipping community already in place
- Best existing connections to larger hinterland markets

### Customer value proposition for additional terminals

- New terminals needed to serve growing volumes
- Reduce vessel waiting times, yard congestion etc.

### What do we need to consider to ensure this is a success?

- Cost-effective solutions / in line with supply-demand
- Adequate specifications
- Further improvement of road/rail connectivity



# Market Need

## “New ports” - e.g. Lamu/Bagamoyo

### Untested locations

- New locations

### Longer-term value proposition to customers

- Solution to issue of current ports' legacy challenges: limited expansion options / city congestion

### Challenges to getting to success

- Competition from existing ports
- High construction costs and small initial cargo volumes
- Limited hinterland connections in place

### What do we need to consider to ensure this is a success?

- Complete the hinterland connections before port development
- Scalable project size and timing a function of demand
- Delivered in the framework of national port planning



# The Concession Process

## 'Must-dos' to promote public-private sector investments

- Market need: determines timing and scope of project
- Project flexibility: projects should be scalable and built according to market demand (no huge upfront constructions)
- Clarity on timely delivery of infrastructure: dredging, road and rail
- 'Clearing the path' for privatisation e.g. customs and tariff reform etc.
- Early coordination with government agencies – port regulation framework in place, tax breaks in the early years, free trade zone status etc.
- Simple and fast tender processes - RFQ and RFP



## Why PPP in Ports Sector?

- To encourage and increase competition
- To enhance performance
  - ✓ Capacity augmentation and utilisation rates
  - ✓ Increasing efficiency & productivity
  - ✓ to improve port competitiveness
- To attract investments/funding
- Strengthen linkages with global markets
- Strong Global networking



# The Concession Process

## Securing funding - concession details

### Limit early commercial risk

- Lenders prefer projects with an existing cash flow so try to package projects as combination of (i) existing cargo base and (ii) future investments

### Construction risk

- Always large potential for project delays and cost over-runs when dealing with construction. To mitigate:
  - Government can build parts of the infrastructure itself and/or
  - Ensure that legal documentation with respect to the construction project is in place before privatisation starts

### Predictability regarding revenues

- Certainty on tariff setting
- Transparency on future competition

### Cost structure

- Avoid high fixed concession fees and instead use variable fees (USD per TEU or % of revenue)
- Avoid one-way penalties - e.g. for not reaching "minimum guaranteed throughputs"

### Termination risks to be limited to a minimum

- "Events of default" jeopardise the future cash flows of the operator and its ability to repay the lenders. Lenders look to:
  - "Standstill and remedy options" / "Compensation" / "Security" clauses

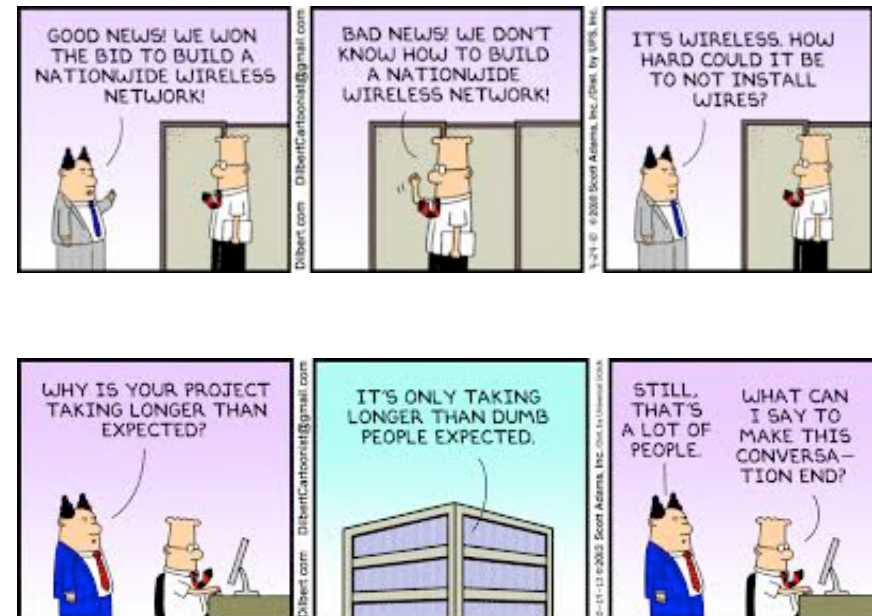




# The Concession Process - Choosing a port operator

## Government considerations when identifying a best-fit private operator

- Different categories of terminal operators
  - Local, regional or fully international / independent or shipping line affiliated / state-owned or privately-owned
  - Extent of experience - location, number and type of projects implemented
  - Financial strength
- Not all operators have experience required for ensuring successful implementation of a given project
  - Geographical experience - challenges differ by location
  - Project type – takeover of an existing business or Build-Operate-Transfer or implementation of high level technological solutions
  - Project size - financial strength needed for larger investments
  - Multi-user facility or a transshipment hub where it is ok to have an anchor customer



## ICTSI Project Insights

### Example 1: Matadi Gateway Terminal (MGT)

#### Build-Operate-Own project

- Value proposal: complement government facility that is already full and provide high-productivity services
- Two berth terminal, 350m quay line, 12m draught alongside and served by heavy duty mobile cranes and reach stackers
- Construction started in March 2015 and operations started in June 2016
- Investments: USD 100 mill

#### Required skill set

- Project management of construction in a market with limited number of marine infrastructures and larger contractors
- Funding capacity in an emerging market context
- Commercial expertise to work with the existing port to further develop Matadi's role as the major hub for DR Congo



### Example 2:

### Madagascar International Container Terminal (MICTSL)

#### Take-over of the government-managed port in 2005

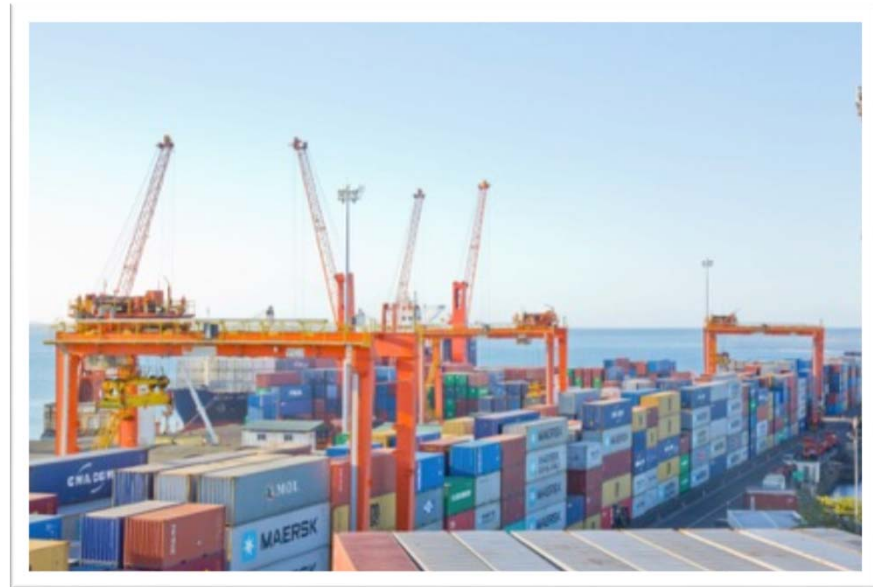
- Value proposal: increase capacity and productivity/efficiency
- Government of Madagascar brought in ICTSI through a tender to upgrade the port
  - Provide new equipment and implement best-practice
  - Implement IT/TOS
  - Take over and train workforce
  - Improvement productivity and customer service

#### Madagascar International Container Terminal – today

- 3<sup>rd</sup> highest berth productivity in Africa, 2 berth facility with 4 heavy duty mobile cranes and RTGs
- Expansion implemented – 200,000TEU to 400,000TEU

#### Required skill set

- Experience working closely with government to take over existing facility without interruptions
- Gradually upgrading the facility's infra and superstructure
- Take over government workforce and work with key stakeholders to upgrade and train the employees



### Example 3:

### Victoria International Container Terminal (VICT)

#### Greenfield Build-Operate-Transfer Terminal

- Value proposal: new capacity with higher infrastructure specs: can take 8,000 TEU vessels compared to the current terminals that take 4,500 TEU vessels
- Opening in Q1 2017

#### State-of-the-Art Automated Terminal

- 5 neo-panamax quay cranes, 11 automated container carriers, 20 automated stacking cranes
- IT: Navis N4 and SAP
- Cost of about USD 500 mill

#### Required skill set

- Highly skilled civil engineers leading the greenfield facility construction (on-budget and on-time)
- In-depth knowledge of the latest equipment, operations and IT to be able to implement pioneering automated terminal technology
- Working in highly-regulated environment: construction licensing and HSSE regulation

