



# The Challenges to Small Caribbean Ports

## Are there lessons to be learned from recent port reforms in Africa?

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# The Challenges to Small Caribbean Ports

## Are there lessons to be learned from recent port reforms in Africa?

Smaller islands in the Caribbean are faced with the very particular challenge, where the port is the gateway in and out of the country and a basic pillar for the economic wellbeing and future of the country, and yet the ports are often the focus of sometimes justifiable criticism for inefficiencies, mismanagement, delays, high cost and maybe even political patronage. And, oh yes, the traffic through the port is in the global scheme of things very small, which in traditional thinking make it questionable whether the ports would attract what is often viewed as the magic solution for improving performance - concession of port operations under a landlord port management model to professional private terminal operators.

In cases where an island wanted to address its specific port challenges, are there models to look at, experiences to benefit from and lessons to learn from?

Most recent port reforms in Africa have been on comprehensive sector basis, where through diagnostics and analysis, a holistic understanding of the challenges of the sector has been established. This has led to port sector reform approach that tries to address the legal/regulatory, institutional and social/labor underpinnings of the sector; and is often accompanied with measures aimed at increasing the role and responsibility of the private sector in port operations. In some cases the terminals being concessioned were relatively small. Drawing on those experiences in Africa - both successes and in a handful of cases where the effort petered out along the way - this brief paper highlights some of the pertinent aspects from the time it is realized that serious change is needed in the port sector until the time when change is indeed effected in the port and the sector. Some of these may be relevant to the experience in the Caribbean port sectors.

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### Series of Epiphanies

There were often extended periods where performance of the sector was gradually declining and commensurately there were rising concerns and demands for improving the situation. This starts in the port and shipping community as genuine sector concerns, but often became political issue. Port specific costs were occasionally an issue, but more generally it was the declining port performance overall which was creating situations such as where shipping lines raised liner tariffs in response to longer wait and berth times and/or had to leave containers to catch up on schedules, customers had to wait long periods until their containers could be processed and lack of investment in basic infrastructure prevented efficiency improvements - in sum, where lack of proper management was creating chaos in port operations. The result was always the same: less and overall more costly port and maritime service for the country, creating a self-imposed and avoidable barrier to the country's trade.

Change in any organization is difficult - often in ports it is made even more difficult because of the public service function of ports, public perception of ports as jewels of the economy, and often deep political influence into management as well as strong union role. It is therefore understandable that as criticism of port performance increases and goes beyond complaints by the port community, that political effort is made to find the one or two actions that will turn the situation around. Sadly, nearly all the time roots of the decline of the ports are deep and systemic and requires a long term solution addressing the problem comprehensively.

It is only when the realization starts taking hold among the various stakeholders that something fundamental needs to be done about the situation in the port - this broad understanding that things need to change - that the country condition for starting to address the problem is in place. The final and concluding epiphany is when support to a fundamental change in the port sector is given by the highest political authority.

In the Africa port reform experience, there is one constant: where there was a high level of political

commitment to reform of the sector, it succeeded; where there was lack of strong political will, the port sector reforms did not succeed.

## Diagnostics and Reform Design.

Frequently as the need for comprehensive port reform is being digested among stakeholders, diagnostics of the port issues take place, which help in developing and designing proper reform. On occasions this diagnostic work only takes place after political decision for change - depending on the political space and circumstances at the time.

Such work - often supported by specialized consultants - normally examines possible port models to emulate, reviews and recommends changes to the legal and regulatory framework, organizational structure and role of port authority, establishes benchmarked human resource requirements, including to understand deviation from existing labor and skills with what would be required under optimal situation and recommends ways of addressing any discrepancies.

During both the diagnostic and reform design phases a good practice is to undertake a number of consultations. These not only better inform the work and eventual reform, but also serve the purpose of informing stakeholders and easing into eventual implementation of the reform. However, often the authorities are reluctant to undertake such

### Where's my silver bullet?

Liberia came out of a 14 year civil war in 2004. As part of the peace agreement, control of the main port of Monrovia was handed to one of the warring factions. Mismanagement, inefficiencies, plunder and rule of the port as a personal fiefdom resulted. A government elected in 2006 tried for two years different one-off solutions (e.g. new board, port management (several times), finance this one piece of equipment, and labor redundancies) all in the hope of improving the port operations, but to no avail. Meanwhile the World Bank advocated a comprehensive solution to the problem. In 2008, a deep legal and institutional reform process finally started, including preparation for concession. This small one million ton, 50 thousand TEU port is now operated by one of the largest terminal operator in the world.

The lesson is that there are no silver bullets - just clarity of agreed vision and hard work.

consultation: in the initial stages of diagnostics the Sierra Leone Port Authority essentially asked the World Bank to be the honest broker in the initial discussions with the port labor unions.

In the Africa experience, nearly without exception, part of the reform solutions have been introducing or restructuring involvement of private sector in one capacity or another in port operations. As a general rule, concessions should be in the last stage of implementation: in Nigeria handover of concessions were delayed about 6 months because the Government had not concluded negotiations and agreements on compensations to redundant labor. By the end of this diagnostic and reform design phase, a clear set of objectives for the reform need to be agreed on.

Sometimes, the ports before reform were excessively overstaffed - in some cases by factors of up to 6 to 7 times what benchmarked staffing would be. Very obviously, such overstaffing had to be addressed as part of a reform. An added dimension sometimes was overly generous conditions of service (including pension obligations) which would have made cost of redundancies exorbitant and indeed beyond capacity of port authorities and governments to finance.

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### Nigeria Presidential Decision

Under World Bank funding (PPIAF) comprehensive policy and planning recommendations for reform of the Nigeria port sector was prepared in 2002, and extensively discussed at political as well as technical level -however, there was no action or decision made for the following two years while the country went through an election cycle.

President Obasanjo, newly reelected, made a decision in 2004 that Nigeria needed to revamp its port sector - at the time generally recognized around the world as one of the worst performing one. In the following 30 months or so, new port bill was drafted; envisioning Port Authority split, restructured and reformulated; redundancies with compensation affecting 25,000 staff and casual labor executed, and; 26 port terminals concessioned. The lesson is that with good analytical underpinning and unwavering political commitment, challenging port reform can be implemented quickly even when confronted with competing interests.

As a consequence of the latter point, i.e. those governments could not pay the stated benefits; normally this led to extensive negotiations with labor unions and eventual settlements. In the end, labor unions have their own epiphanies and understand why reform is needed and how those may affect them. One labor leader stated to the writer of this paper during a 5 hour long discussion with a group of about a dozen Nigerian union representatives: "We know the reform will go through. We just want to hold out for the best deal possible".

Well-designed redundancy packages do not only mean payments to labor; rather, it may include counseling and training, education grants, microcredits to establish new small enterprises and other means especially designed to reduce the risk that the redundant labor falls into poverty.

## The Holy Grail

The legal, institutional and labor reform can be thought of as putting in place the needed framework for well operating ports; sometimes accompanied by restructuring existing private sector involvement in port operations or in most cases introducing private sector in port operations hitherto served directly by the port authority.

Existing and expected growth of natural throughput of a port is important, as well as of course its transshipment potential, when formulating the approach to concession. For instance, a port with 400,000 TEU throughput could be expected to sustain two competing concessions (depending of course on port space and configurations); the question for smaller Caribbean ports would be if there is a bottom limit on throughput where it becomes impossible to attract a traditional concession? The ambiguous answer is that it depends. In the end, a concessionaire looks at the expected profitability of operating a terminal. In that evaluation the combination of volume of traffic, applicable tariffs and perhaps other reasons such as vested interest in speeding up service of own vessels comes to play. Some of the smallest volume terminals concessioned in Africa in past 10 years have only had a throughput of about 50,000 TEU. But very recent example of such concession in Liberia may be an indication that the volume of

traffic can be even lower and still attract interest and competition for terminals by competent operators - and to boot in a country that still had a high risk premium demand because of recent conflict.

In that concession significant investment and operational obligations were placed on the concession - indeed far beyond what normally is seen in port concessions. Yet, through careful formulation of the concession, market sounding, tariff adjustments, and exceptionally well prepared concession process, this concession was successfully implemented and has now been in operation for a little over 2 years (see text box "The Monrovia Concession").

While concession in larger ports follow familiar path, there is no infallible formula or a cookie cutter approach to concessions of smaller ports. While the design of the concession would be oriented towards the particular needs of a port, each concession needs also to be designed accounting for the potential limited interest of the market. Use of market sounding can be helpful, where the preliminary design of the concession parameters are presented to a number of potentially interested concessionaires, and on basis of the market response the design of the concession is detailed further.

Discussion about the concession design or what will be concessioned, needs to be had, as well as clarity of what the objectives of the concession ought to be; is the intent to get the greatest value for the concession, drive down costs, get the highest efficiency, attract investment, know how, or any combination of these? Further, what type of concessionaire is desirable and with what profile?

The concession process normally follows a path where due diligences for the concession are undertaken, resulting in a series of reports and opinions on aspects that may affect the concession, such as legal and regulatory, operational, technical and engineering, equipment, institutional, human resources/labor, environmental and importantly financial and creation of a financial model which will help in refining the concession design and tariff issues. On basis of the concession design and informed by issues discovered and exposed in the preparation of the due diligences, a formal request for expression of interest is issued, sometimes

accompanied by a brief Information Memorandum. On basis of the responses and within the established parameters of the request for EoI, a shortlist of terminal operators will be invited to submit a proposal for the concession on basis of a Request for Proposals. To the extent possible, selection criteria need to be quantitative so as to ensure transparency in the process.

In one case in Africa, the period of proposals built in two rounds of comments on a draft contract which eventually would govern the concession. This resulted in far fewer issues that eventually needed to be addressed at negotiations and - importantly - tightened through the open consultations with competing terminal operators the technical, operational and procedural details of the concessions. This turned out to be an exceptionally successful addition to the process.

An inevitable issue raised in the process in the concessions in Africa is how economic regulation will be accommodated. For the most part independent economic regulatory agencies do not exist, which the concession contracts can refer issues related to tariff and its adjustments. In the end, for the most part, the economic regulation is by the contract itself, i.e. the contract clauses described how to resolve these issues. In one case the government initiated steps to establish an independent transport commission which would regulate all transport tariffs.

## The Monrovia Concession

The Liberia Government faces enormous challenges in rebuilding its basic infrastructure after decades of damage and neglect during a civil war. The 600 meters of berths at the main terminal in the Freeport of Monrovia were not only approaching the end of their useful life (built in 1946); they were literally collapsing, with stretches non-operational due to failing strength integrity. The port throughput was only one million ton (including in 50,000 TEU). In designing the "width and breadth" of the concession the Government eventually decided to go as far as possible in moving operational and investment responsibility to a concessionaire. Following an excellent process aimed at maximizing the benefit to the country, eventual concession was signed with APM Terminals, for (i) terminal operation covering container and general cargo and (ii) tug and pilot service. The investment obligation included all terminal equipment, new tugs and pilot boats and construction of a new 600 meter quay. Reportedly, the investment alone was valued at US\$120 million.

The lesson learned is that a well elaborated and smart concession design can bring great benefits even to a small port.

## Conclusion

There are a handful of lessons to be drawn from African port reforms of the past years that reform minded stakeholders in the Caribbean may want to keep in mind.

- Generally speaking, there are no silver bullet solutions. Proper reform most often requires comprehensive actions addressing legal, institutional, labor and PPP aspects.
- Without highest level political commitment, the chance for successful reform is compromised.
- A careful understanding of the root causes of port inefficiencies needs to be developed and appropriate reform actions designed.
- Stakeholder consultations in design and implementation of reforms improve and facilitate the actual process.

- If ports are overstaffed, labor issues need to be addressed; eventual solutions should to try to ensure that redundant labor has an opportunity to establish itself again economically.
- When it comes to concession of small ports, there is a need to design a concession around not only the requirements of the port but also the realities of the market.
- Well designed, transparent and competitive transaction process leads to better outcomes.

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