

Financing Port Development Projects

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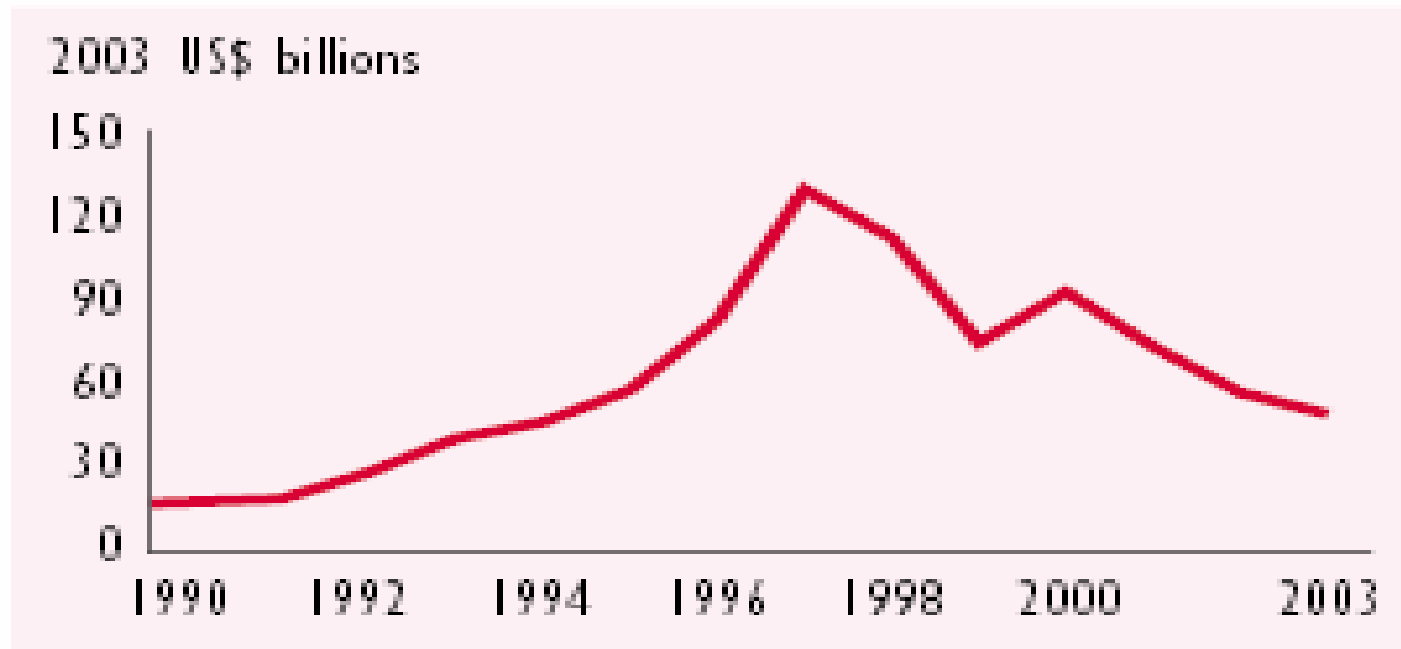
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Private Investments Trend

Figure

Investment in infrastructure projects with private participation in developing countries, 1990–2003

I



Source: World Bank, PPI Project Database.



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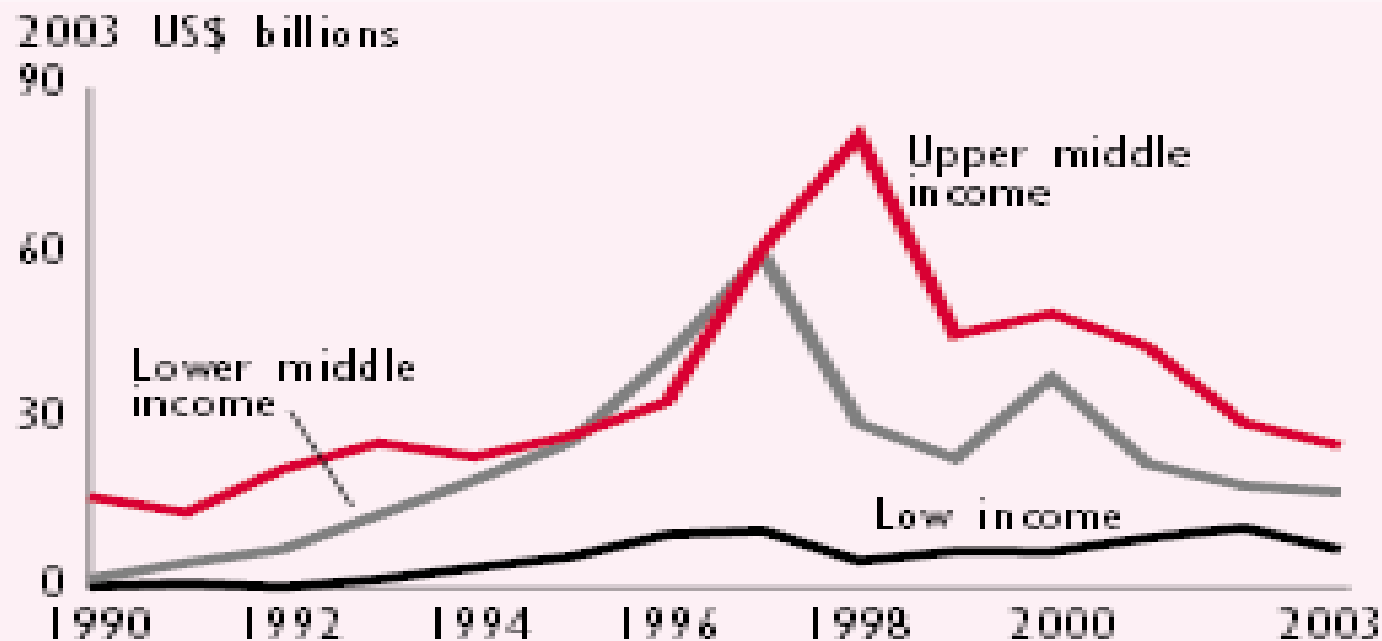
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Trends by Income Groups

Figure

Investment in infrastructure projects with private participation in developing countries, by income group, 1990–2003

2



Source: World Bank, FPI Project Database.



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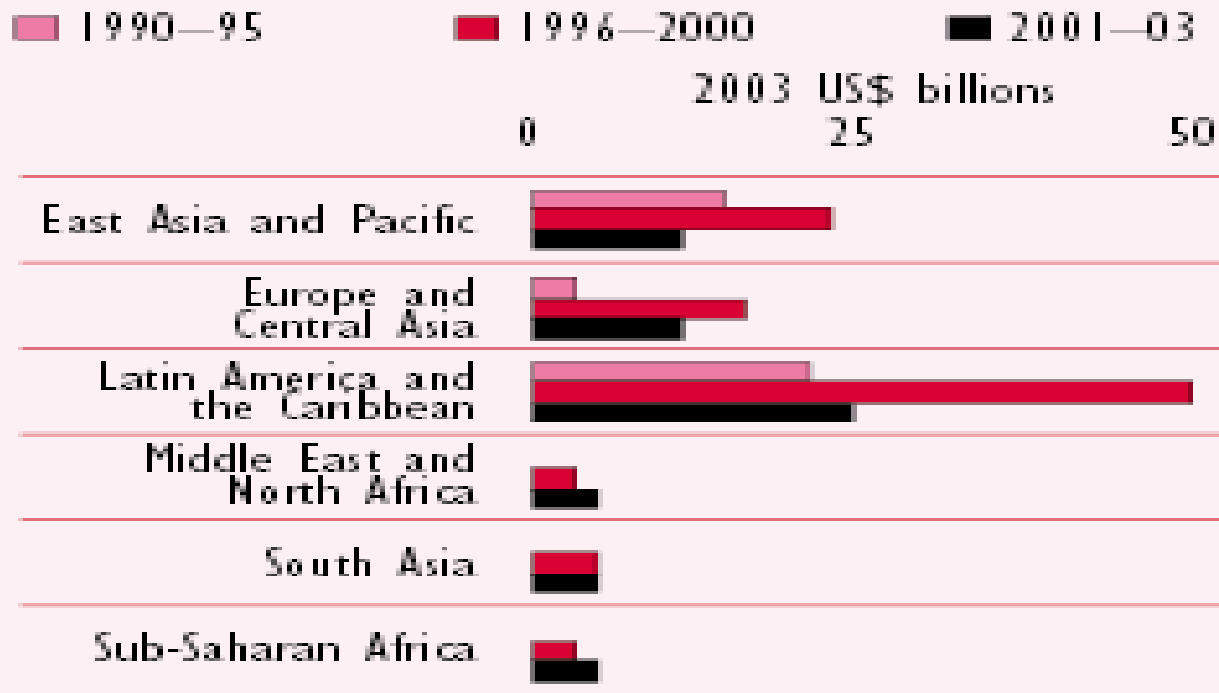
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Trends by Region

Figure

Average annual investment in infrastructure projects with private participation in developing countries, by region, 1990–2003

3



Source: World Bank, PFI Project Database.



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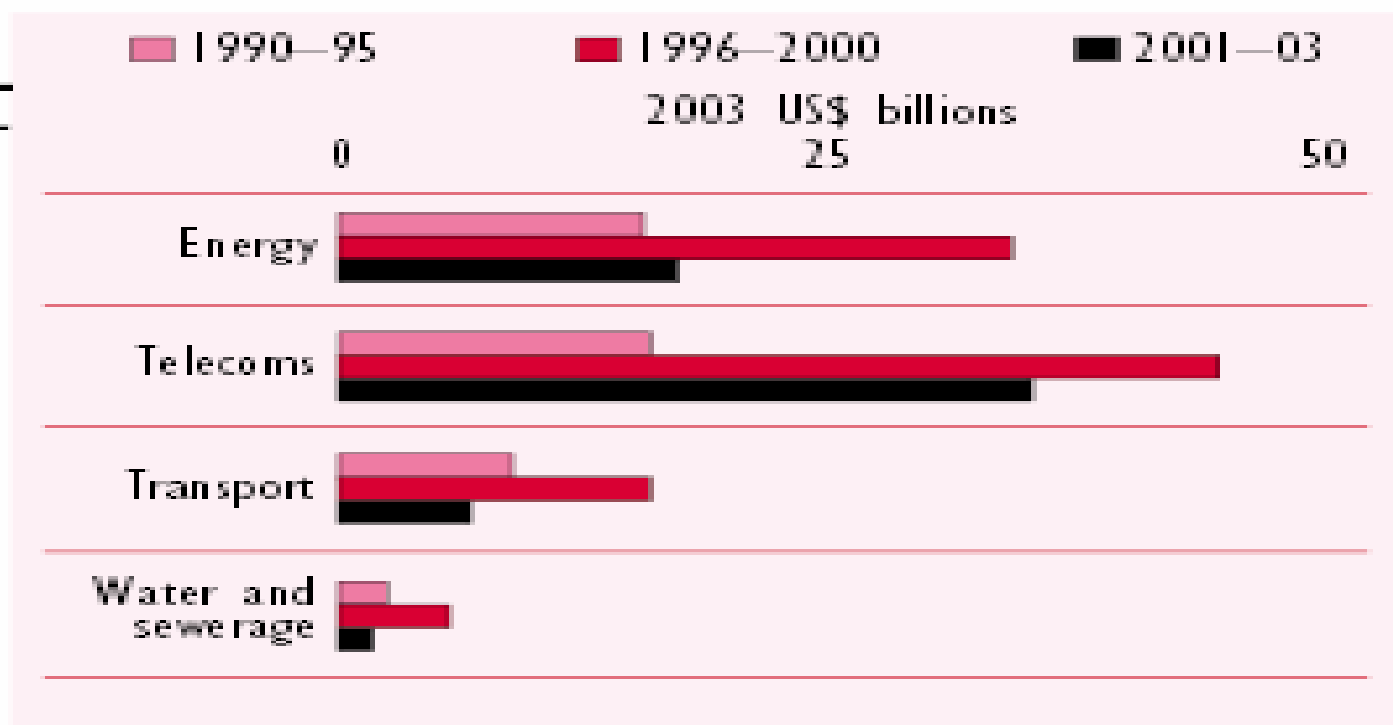
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Trends by Sector

Figure

Average annual investment in infrastructure projects with private participation in developing countries, by sector, 1990–2003

4



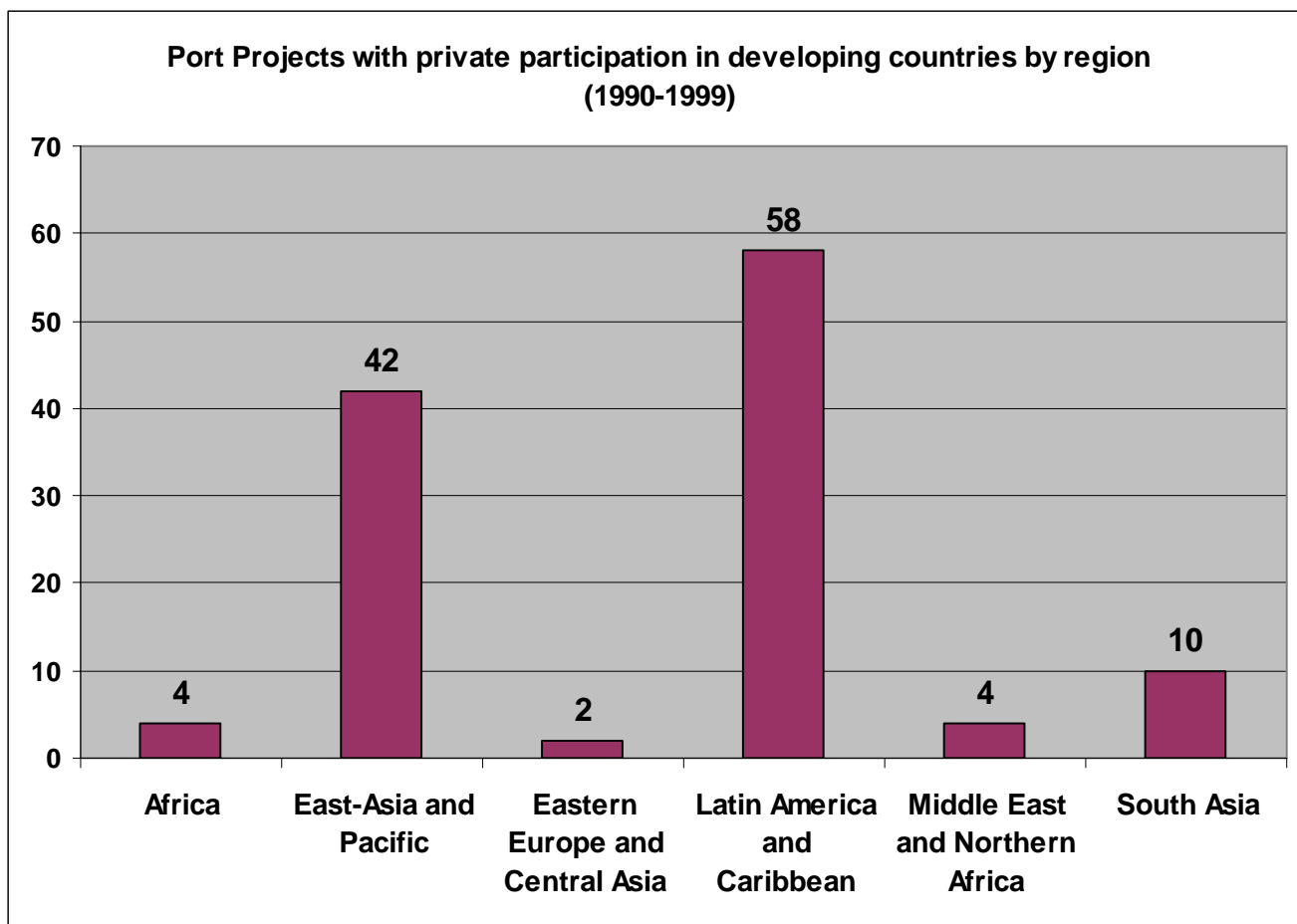
Source: World Bank, PPI Project Database.



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Port Projects 1990-1999



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Transport Projects Investments 1990-2003

Primary Sector	Sub-Sector	Total Investment in Government Assets (US\$ millions)	Total Investment in Facilities (US\$ millions)	Total Investment (US\$ millions)
Transport	Airports	4,327.50	8,107.10	12,434.60
Transport	Railroads	5,847.60	21,773.70	27,621.30
Transport	Seaports	2,583.70	18,572.90	21,156.60
Transport	Toll Roads	4,453.70	58,519.00	62,972.70
	Total	17,212.50	106,972.70	124,185.20
Grand Total		17,212.50	106,972.70	124,185.20



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Port Investments in LAC 1990-2003

Primary Sector	Sub-Sector	Type of PPI	Total Investment in Government Assets (US\$ millions)	Total Investment in Facilities (US\$ millions)	Total Investment (US\$ millions)
Transport	Seaports	Concession	1,357.30	3,417.70	4,775.00
Transport	Seaports	Divestiture	37.6	109.8	147.4
Transport	Seaports	Greenfield project	90.6	1,191.90	1,282.50
Transport	Seaports	Management and lease contract	14.5	3.9	18.4
		Total	1,500.00	4,723.30	6,223.30

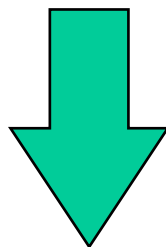


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The Bank's Mission

- ◆ **The overarching Bank's mission is to Alleviate Poverty in the Bank's Client Countries**



- ◆ **To Select Infrastructure Operations which Contribute to Poverty Alleviation**



Trade & Poverty Alleviation

- ◆ There is a growing consensus in empirical studies that greater openness to international trade has a positive effect on country per-capita income.
- ◆ A study by Frankel and Romer (1999) estimates that increasing the ratio of trade to GDP by one percentage point raises per-capita income by between one-half and two percent.
- ◆ Numbers of other studies reach similar conclusions, though the estimated size and statistical significance of the effects vary.



The Bank's Role in Infrastructure

- Providing assistance to Governments in:
 - Design of an appropriate sectoral framework
 - Restructuring and divesting sector institutions
 - Capacity building for sector planning and regulation
- Attracting and negotiating with private partners to assure optimal benefits for the country
- Introducing risk mitigation mechanisms and thus attracting private capital into projects
- Financing critical elements of basic infrastructure



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The Infrastructure Action Plan

- Recognizes the importance of infrastructure, in particular Transport, in achieving the Millennium Development Goals (MDGs)
- Fosters enhanced cooperation between all branches of the World Bank Group
- Calls for increased investments in infrastructure projects to improve economic competitiveness



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The Bank Agenda on Ports

- ◆ **Promote Port Sector Reform to Remove Administrative Bottlenecks to Efficiency**
- ◆ **Promote Public-Private Partnerships in Port Operations and Investments to Optimize Cost-Effectiveness of Port Operations**
- ◆ **Help Governments in Designing and Implementing this Approach**
- ◆ **Provide Financing for Access, Protection, Basic Operational Infrastructure, Safety and Security**



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Private Investment in Infrastructure: Main Hurdles

- ◆ **Weak Institutional/Regulatory Framework**
- ◆ **Private/Public Risk Allocation**
- ◆ **Long Term Sovereign Risk Management**
- ◆ **Assets Economic Depreciation Period vs. Short Term Financial return Objectives**
- ◆ **Weak Domestic Financial Markets**



**Estimated Available Market
in the Port Sector**

**Estimated
Annual Revenues**
(billions of \$)

Container Terminal Operations	30 to 40
Tug Assist Services	4 to 5
Maintenance Dredging	4 to 5
Information Technology	2 to 3
Environmental and Ship Safety Services	1 to 2
Other Port Services	4 to 5
	<hr/>
Total Available Market	\$45 to 60

Ref: Port Market - World Bank Port Reform Toolkit (Feb. 2000)



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Project Related Risks

- ◆ **Design/Construction Risk**
- ◆ **Environmental Risks**
- ◆ **Operating Cost Risk**
- ◆ **Revenue Risk**
- ◆ **Financial Risks**
- ◆ **Political and regulatory Risks...**



Political and Regulatory Risks

- ◆ Potential Conflicts among Different Governing Bodies
- ◆ Adequacy of The Legal Framework and Risk of Change in The Legal and Regulatory Environment
- ◆ Price Setting Policy
- ◆ Enforceability of Contracts
- ◆ Risk of Change in Economic and Political Orientation
- ◆ Redistribution/Public Good Management Issues
- ◆ Ex-Post Contracts Renegotiations



WBG instruments can mitigate Government performance risk

IFC

IFC A Loan
IFC B Loan
IFC Guarantees
(partial credit structures usually for local financing)

MIGA

Political Risk Insurance
(expropriation, transfer restriction, breach of contract, war & civil disturbances)

IBRD/IDA

Guarantees
-Partial Risk
-Partial Credit
-Policy Based
IBRD Loan
IDA Credit

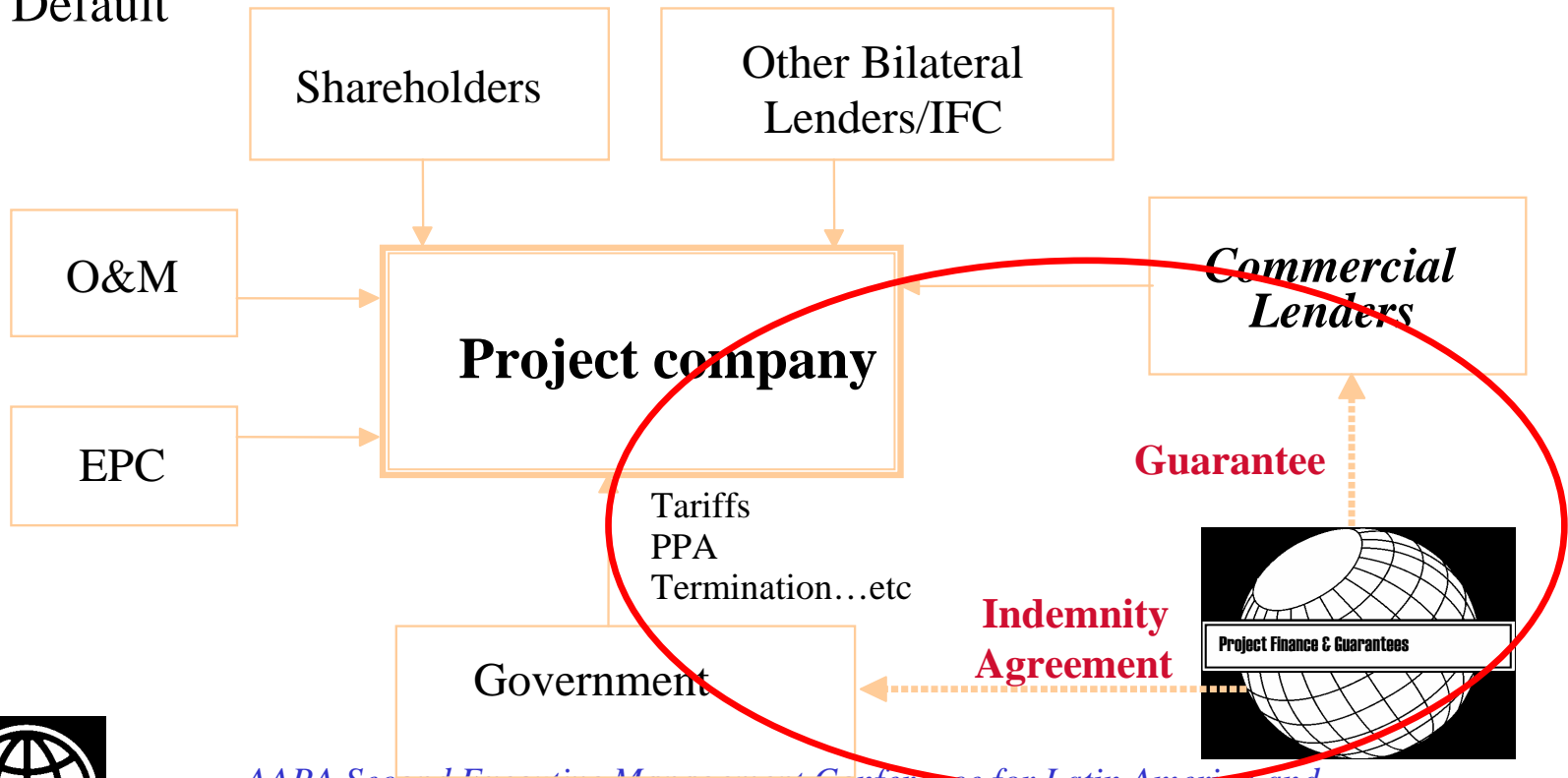


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PRG with its counter-guarantee reinforces governments incentives to perform

A Partial Risk Guarantee (PRG) will cover lenders in case of a default on a covered contractual obligation to a project company leading to a Debt Service Default



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Example of advisory services

- **Advisor to the Port Authority (also reported to the Government)**
- **Review of legal, market, institutional aspects**
- **Develop transaction structure options**
- **Prepare transaction documents**
- **Market transaction (Info Memo, contacts)**
- **Coordinate bidding process**
- **Team: 3 IFC/WB, 3 law offices, 2 consultants**
- **Success fee + retainer**



Some useful references

- World Bank WEB site: <http://www.worldbank.org>
- Search for WB Port Thematic Group (PRAL)
- Port Reform Toolkit and Global Facilitation Partnership for Transportation and Trade (see PRAL)
- IFC WEB Site: <http://www.ifc.org>
- PPIAF site: <http://www.ppiaf.org>
- Bank Guaranties: <http://www.worldbank.org/guarantees>
- World Bank Institute Development Studies (June 2000)
“Privatization and regulation of Transport Infrastructure”

