Infrastructure Advisory

The PPP series provides an overview of successful public-private partnerships in various infrastructure sectors, where IFC was the lead advisor.

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Madagascar: Port of Toamasina

IFC advised the government on the transaction and helped develop an enabling environment for the public-private partnership. The privatization of the port of Toamasina has increased handling capacity at the port from 60 to 2,500 tons a day, helping turn Madagascar into a regional hub for port traffic.

Philippines' International Container Terminal Services, Inc. won the 20-year concession for the operation, management, financing, rehabilitation and development of the container terminal at Toamasina with a bid of €36.80 for the variable concession fee to be paid to the port authority for each TEU (twenty-foot equivalent unit) that will transit through the terminal. The transaction was closed in May 2005.

The transaction was supported with funds from the Dutch Ministry of Foreign Affairs, the Private Infrastructure Development Group, the Swedish International Development Cooperation Agency, and the United Kingdom's Department for International Development.

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BACKGROUND

The port of Toamasina handles 90 percent of Madagascar's container traffic and more than 80 percent of all trade traffic. Poor tariff structures and slow handling prevented the port from becoming a major regional hub as the government had envisioned. Transit through the terminal was strikingly low. Key issues were low productivity (Toamasina handled 5 to 6 TEU per hour compared with a global port average of 15 TEU per hour), bottlenecks (full containers sat in the port for an average of 20 days), and outdated equipment.

IFC'S ROLE

In late 2003, the government hired IFC as its exclusive adviser to propose amendments to the existing legal and regulatory framework to make it more conducive to private sector participation and to help structure and implement a transaction for a private partner.

Based on a thorough analysis, IFC recommended a long-term concession, which would enable the government to disengage from the sector and would motivate the private operator to improve the port's performance. Under its mandate, IFC

- drafted three government decrees, which helped the government restructure the port's management and ownership;
- helped the government create the port authority, a conceding authority for all private sector participation in the port;
- developed the transaction structure and helped market it to international bidders;
- conducted a prequalification process to ensure that potential bidders had the requisite technical experience and financial strength;
- ensured a highly transparent bidding process; and
- drafted and finalized the concession contract between the government and the private partner.

TRANSACTION STRUCTURE

Under the concession structure, the private operator would have exclusive rights to operate the container terminal for 20 years. The private operator would acquire existing equipment from the state-owned operating company and retain the container terminal's 350 employees for at least five years.

IFC also negotiated a 10 to 20 percent tariff reduction for handling and delivery in the contract in advance of the bidding thus lowering transport costs for the country, ensuring wider support for the concession, and helping attract potential users.

BIDDING

Four international companies met the prequalification criteria: Philippines' International Container Terminal Services, Denmark's AP Moller Finance, Hutchinson Port Holdings of Hong Kong (China), and the Maltese and French consortium of Malta Freeport/CMA CGM-Bolloré. Bidders submitted bids based on a variable fee per TEU. Philippines' International Container Terminal Services won with a bid price of €36.8 per TEU.

With a total traffic of less than 3 million tons per year in 2005, Toamasina could not be considered a major port in Africa. Post-privatization, in 2006, an independent ranking of 43 African ports placed Toamasina 5th in terms of productivity.

POST-TENDER RESULTS

- increase in productivity from 5 to 6 TEU per hour in 2004 to more than 23 TEU per hour in 2006;
- improved handling capacity from 60 to 2,500 tons a day;
- upgraded terminal handling capabilities as a result of €22 million in investments in equipment, wharf rehabilitation, and software upgrades;
- creation of a monthly roundtable where all stakeholders convene to discuss concerns in relation to the port and the port's operations.

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