

# Making the Deal in Africa



4th Intermodal Africa

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# Content of presentation

- African Port Sector: Future Requirements
- Private finance in Africa's Ports: update
- Diagnosis of current status
- Improving the bankability
- Conclusions



# African Port Sector: sector trends



Impressive coastline with 39 out of 54 countries with direct access to sea

Approximately 95 Ports that handle international cargo, of which 50 handle containers

Africa has very high transport costs:

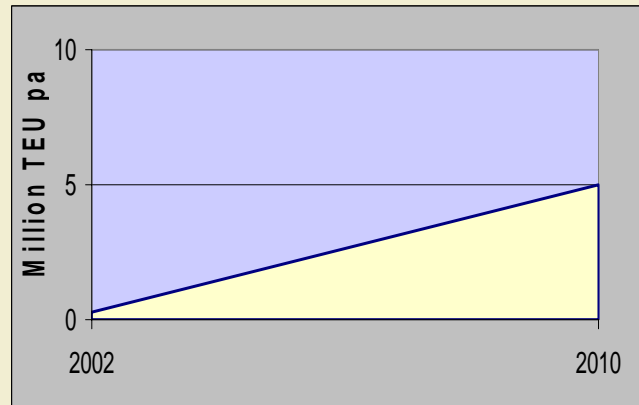
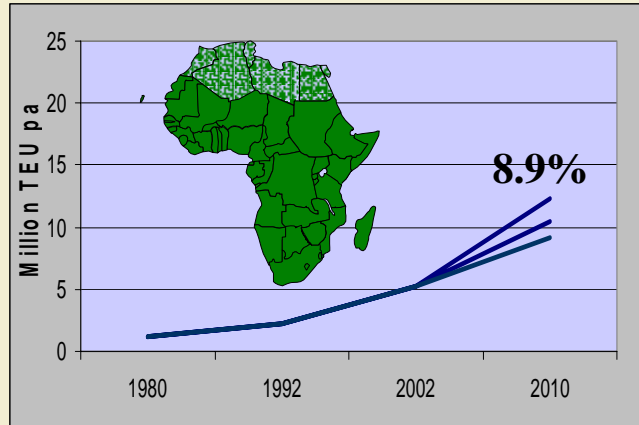
- UNCTAD: transport cost as share of product value twice global average
- Ports contribute 10-20 % to total transport cost
- Container handling fees higher than Europe
- Turnaround times longer than Europe (e.g. Lagos with 72 hours)

Less than 5 % of total global container trade is handled at African Ports

Under investment and Under Capacity is a serious problem: congestion surcharges in many ports

Demand is increasing by approximately 10 percent annually

# African Port Sector: Overview



## Sub-Sahara Africa

- CAGR: 8.9 % (1992-2002)
- The gap is widening
- 6.3 million TEU (2005)

- 5 mio extra TEU capacity by 2010
- Total Investment Requirement: €1.5 Billion
  - Quay cranes
  - THE equipment
  - Yard
  - Marine Infrastructure

## Private sector involvement: status of developments



- There seems to be a large fascination by Governments to finance this out of public means
- Estimated 10-15 % of Africa's Container handling capacity is carried out by private operators (global average: 75 %)
- Past decade: only 1 to 2 percent of global port investment invested in Africa
- Number of private sector deals is substantially lower than in other regions



# The attractiveness of private finance

If carried out properly, involving private sector in port project implementation, typically generates benefits to the public:

- Focusing on core competences of all participants
- Providing right risk allocation
- Allowing for additional funding
- Overall improvement of port performance and reducing national transport costs and increasing efficiency
- Generates income direct and indirect



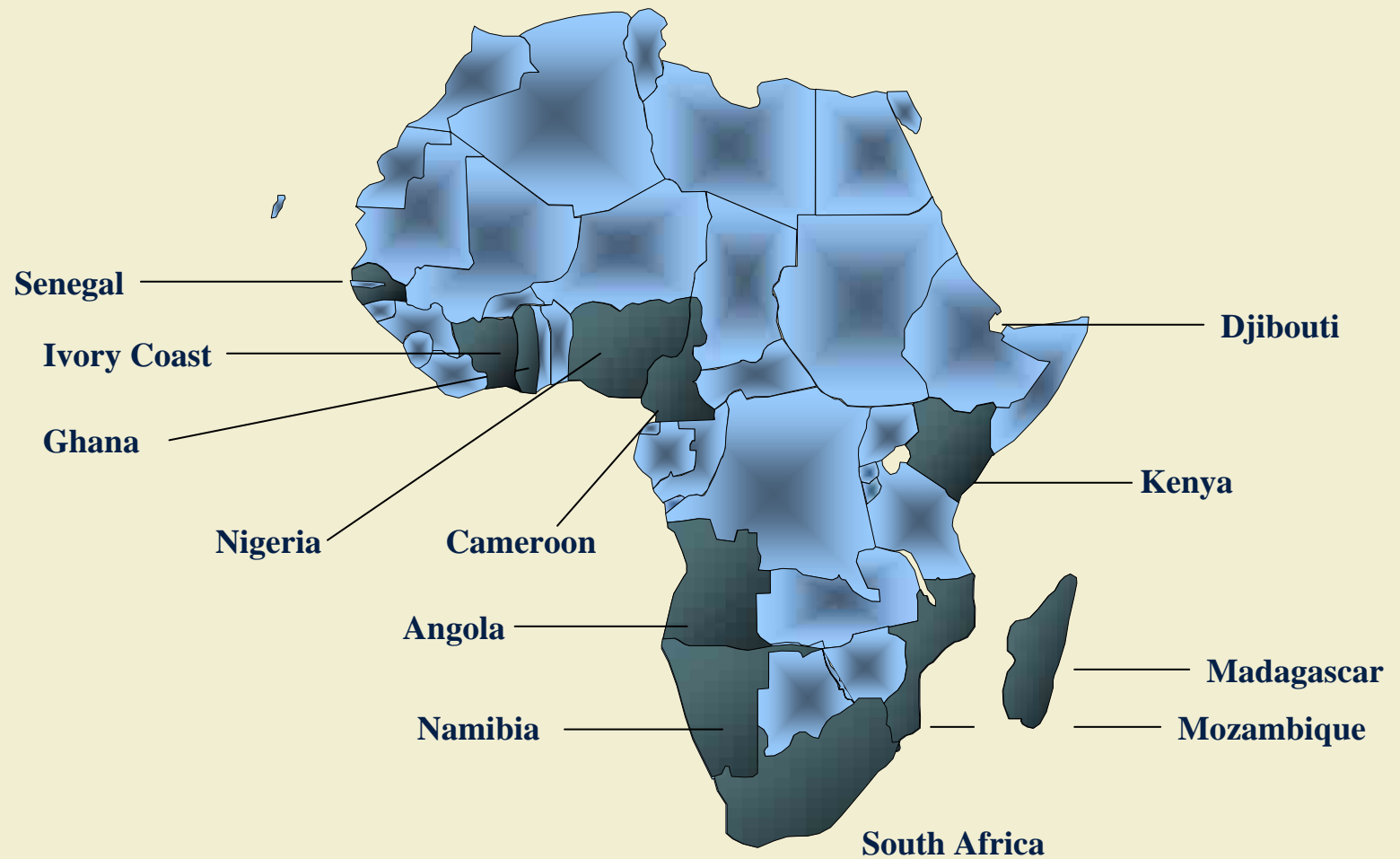
## The attractiveness of private finance (2)

### For the Sponsor

- Characteristics of good investment:
  - terminals can be cash machines: CAPEX: 1-2 years of turnover @ capacity
  - USD nominated;
  - Low price elasticity: small part of total cost; only few alternatives
  - Startup volumes
  - RoE
- Strategic (in case of S/L):
  - Improved logistics network;
  - EBIT diversification/improvement (2-4 times shipping profit)
  - Improve/defend liner business



# Private sector involvement: overview

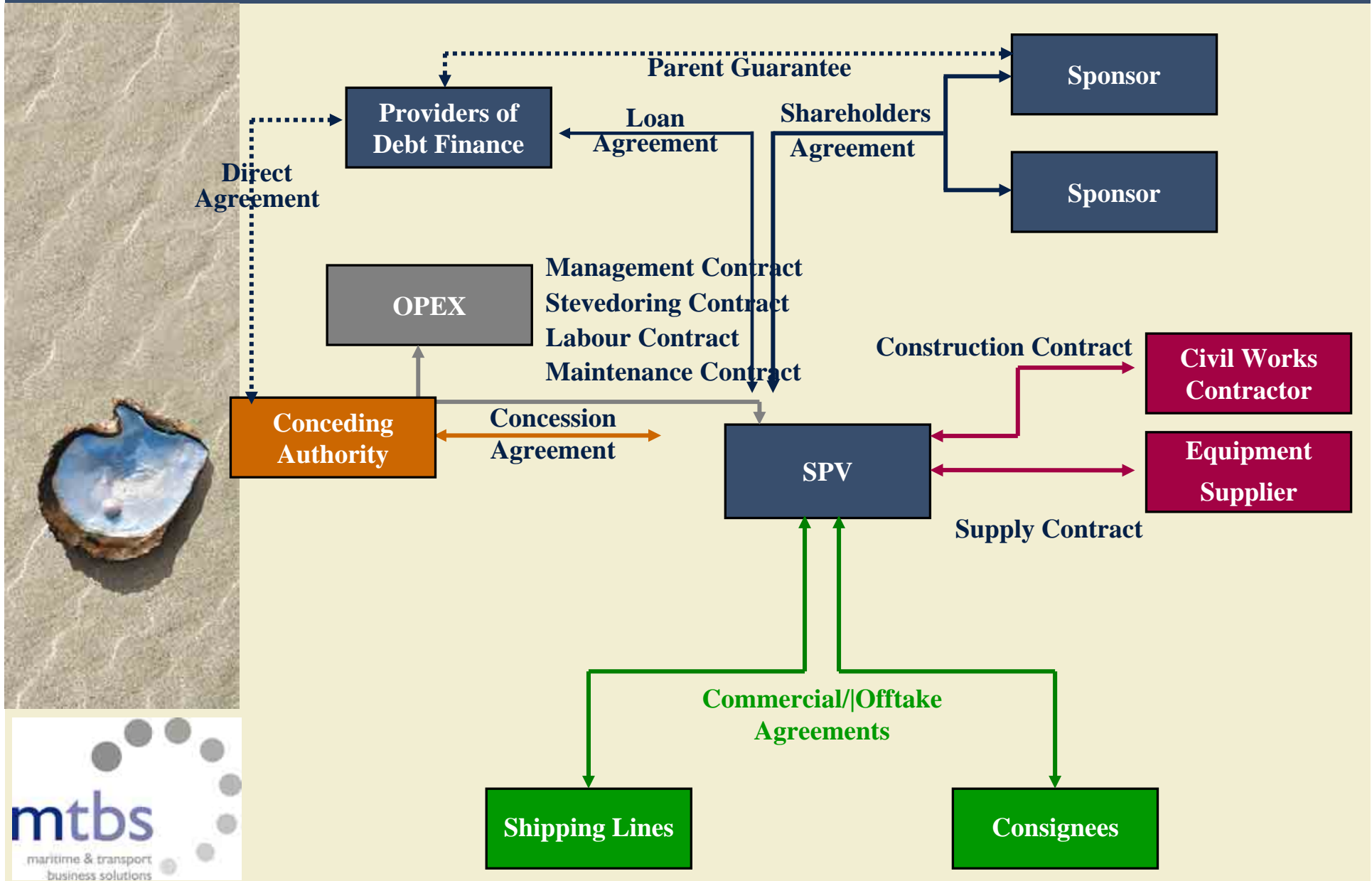


# Diagnosis



1. Private finance is equally attractive in Africa as in other regions.
2. Deal flow remains slow, contracting appears time consuming and appears costly. Major reasons for lack of deal flow:
  - Bankability proves different than anticipated
  - Preparation process appears suboptimal

# Improving bankability



# Improving bankability



- Concession documentation should be of international standard (meeting banker's minimum requirements):
  - Including clear business definition (tariff setting, exclusivity, competitive environment, regulation)
  - Performance criteria
  - Including compensation for changes in law, regulations, Government performance, force majeure, step-in rights
- Commercial case (and docs) should provide for 'standard' CF requirements:
  - Minimum DSCR (1,25) and LLCR (1,40), DSRA and PCRA
  - Dividend lockup and SHL servicing lockup

**Conclusion: bankability is comparable to global trend, though more expensive. Requirements to governments should be made explicit.**

# Improving the project procedure



We consider the typical procedure different from example projects

- Low investments in expert base and concept development during the preparation phase (up to 5 percent of project costs)
- Lack of analysis of commercial attractiveness and definition of bankability requirements before start of contracting
- Higher investment in ‘rescue operations’ than in ‘quality anticipation’
- Little use of sophisticated contracts with key advisors
- Postponement of key decisions (e.g. governmental risk acceptance and contributions, financial results) to during negotiations
- Procurement is often skipped, whereas procurement generally improves results



**Conclusion: project procedure may be improved by (1) investing during preparation, (2) early no go decisions and (3) improving knowledge base.**

# Conclusion



- Africa's port sector requires substantial investments over the next 5 years
- Private sector involvement is comparatively underutilized
- We believe private sector involvement will prove attractive to the public
- Preparation should be improved with 'homework finished' before start of contracting
  - Preparation may be improved by utilizing smart contracts with advisors
  - Bankability requirements should be checked early in the procedure, covering both commercial and contractual issues
  - Focus should be on linking private sector incentives to public sector objectives



**Thank You**  
**for Your Attention**

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