

The modernization of the Umm Qasr port

By Peter Stein

CEO Stein Brothers AB

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Broad content of presentation

- 1. Basic facts about the Umm Qasr port
- 2. Financing modernization by applying the PPP-model
- 2. Financing modernization through a loan from a development bank

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1. Basic facts about the Umm Qasr port





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Basic facts about Umm Qasr Port

- The port was build in 1962
- About 60 km south of Basra along the Kuwait border
- Little substantive development since then
- Port functioning at half capacity today
- Crucial site for Iraqi food imports
- Receiving around 50 000 tonnes of food daily

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Purpose of modernization

- The bottom line is that the port needs a total rebuilding
- Equipment and machinery needs to be replaced

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2. PPP

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Recapitulation of a key principles

- Do not view PPP as simply a method to raise private capital
- Main argument for the PPP-model is that it makes use of private sector skills
- PPPs result in efficiency gains when the quality of services is contractible, there is adequate risk sharing and incentive-based legislation

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Some data that will need to be provided before competitive tendering takes place

- Concrete specification about the ports current capacity
- What equipment and machinery needs total replacement and what can be refurbished and hereby modernized
- What is the time duration of the contract period?
- What investment outlays are, broadly, anticipated?
- Which national or regional authorities are currently in charge of the port?
- Is such a division of labour clearly demarcated?
- Make available documentation about the ports history and technical features

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Key issues at national level

- Is an appropriate legal framework available?
- Often traditional laws on public work do not have sufficient flexibility to design PPPs
- Specify the Iraqi channels of responsibility and accountability
- Might some streamlining of ministerial authority be necessary? If so can it be achieved?
- Outline the process for competitive procurement

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On competitive procurement

- What is the time frame for potential providers?
- What trade-offs between price and quality will guide Iraq when it selects a provider?
- Are there any national security considerations regarding who might be a potential provider?

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Additional technical that should data be included from the beginning

- A detailed and technical presentation of the history of the port and its current capacity:
 - How has it fared in the period 2003-2008?
 - What type of merchandise can the port handel today?
 - What are the loading capacities?
 - What is the desired increase in opeartional capacity?
 - Which is the current port authority?
 - How many people are employed by the port authority?
 - What are the license costs?

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More regarding provision of technical data

- It might be advisable to ask a well renowned international consulting form to make a thorough evaluation of the port

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Key financial aspects

- Will an Iraqi partner contribute to the financing?
- What is the estimated present value of future revenue streams?
- Will a future port authority have the right to charge user-fees?
- Will there be any limitations on its decision-making in setting such fees?
- How are payments to providers linked to performance over the contract life?
- How will Iraq earmark resources in its budget in order to secure abilities to handle future payments?

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On risk-sharing

- Specify how the provider has responsibility for construction risks, performance risk and demand risks
- Specify how the procuring authority has responsibility for risks associated with mis-specification of output as well as project-specific political risks
- Specify when the provider and the procurer might share risks

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Some important legal aspect at project level

- Specify project managers independence and authority
- Establish effective mechanism for regular benchmarking of the project as well as conflict resolutions
- Establish policy how to divide benefits resulting from a refinancing of the project
- Which national laws will apply in case of arbitrage?
- How will ownership be transferred at the end of the contract period?

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3. Loan from a development bank

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Conceptual differences between a PPP-contract and a loan

- In a PPP-contract the private provider has mandate to design, build and manage the project over the entire life-span of the agreed contract
- In a modernization based on loans the port will, in principle, be run by the relevant Iraqi authority
- That authority decides policies regarding licenses, user fees, employment policies etc.

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Points to think about before a process of loan application

- Might it be advisable to hire a foreign firm with experience in running ports to run this port jointly with Iraqi authorities?
- Identify the time period over which the loan will be repaid
- Ask for a ten-year period of no amortizations
- Which Iraqi banks will handle the loan applications?
- Outline the division of labour between the central government and the regional authority where the port is located

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Write a cover letter

- This will be the first item of a loan proposal that the bank will look at and it needs to draw the right attention
- The letter should include name of the company, its seeking and what purpose

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Complete the remainder of proposal

- Arrangement of the company
- Proposed cost- and revenue projections
- Who will be the Iraqi principals?
- Make a case for the management team
- What are their previous experience in running such an operation?

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Financial analysis

- Provide a complete analysis of financial data
- Break down the investment costs
- How is the loan supposed to be repaid?

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Peter Stein

- CEO Stein Brothers AB
- Norrtullsgatan 6
- SE-113 29 Stockholm
- Tel: 0046 70 424 09 68
- Peter.stein@steinbrothers.se

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