

AID-FOR-TRADE: CASE STORY

ASIAN DEVELOPMENT BANK

Fiji Ports Development Project

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EXECUTIVE SUMMARY

Maritime trade is central to the Fiji Islands' economy, which is open and driven by exports. Its main markets are Australia, United Kingdom, and United States. Exports of goods and services correspond to about 70% of GDP, while imports of goods and services equal about 50% of GDP. The provision and efficient operation of adequate port facilities is therefore essential to the country's prosperity.

The Asian Development Bank's (ADB) Fiji Ports Development Project comprised wharf improvements at the ports of Suva and Lautoka, on the island of Viti Levu, the principal gateways for Fiji's international trade. Before the project, operations in both ports were constrained by the deteriorated condition of the wharves and by capacity limitations. The project's objectives were to achieve a stable macroeconomic environment; support trade, investment, and private sector development; and enhance the economy's competitiveness through the rehabilitation of ports and sustained improvement in port productivity.

ISSUES ADDRESSED

King's Wharf in the port of Suva is Fiji's main container and multipurpose port facility. Originally built in 1963, it was rehabilitated and developed to handle containers under the first ADB loan to the port sector, approved in 1979. Twenty years later—at the end of the expected life of the rehabilitation—and despite a regular maintenance program, Suva Port was found to be degenerating with (i) an aged wharf apron with a reduced structural capacity to handle the current cargo requirements, (ii) an aged wharf structure and its landfill reclamation at below minimum seismic standards, and (iii) insufficient storage space for containers. Corrosion was also found to be significant, severely affecting the expected life of the port facility. The feasibility of developing King's Wharf was confirmed by an Appraisal Mission in May 1999.

The port of Lautoka, constructed in 1961, was rehabilitated and upgraded with European Investment Bank financing in 1992, but extension of the port's berth and storage space was needed due to increasing demand.

OBJECTIVES PURSUED

The project aimed to improve regional competitiveness of the port system by (i) extending the life of King's

Wharf by 15 years, (ii) ensuring that the wharf complies with the required seismic standards, (iii) improving the wharf deck and container yard to efficiently handle the increasing cargo loads, and (iv) extending Lautoka Port facilities to facilitate trade opportunities with reduced time and cost of port and cargo handling operations.

The project intended to (i) arrest deterioration of the ports in Suva and Lautoka; (ii) strengthen critical sections of the King's Wharf, enabling it to comply with internationally recognized seismic standards assessed for Fiji and the site; (iii) improve King's Wharf deck and container yard capacity to efficiently handle the increasing cargo loads; (iv) increase berthage space by a total of 300 meters at Lautoka Port; and (v) increase container storage area at Lautoka Port by six hectares. The project also provided a framework for sector performance improvements inducing introduction of competition in stevedoring, crystallization of agency responsibilities, optimization of operational management, rationalization of financial management, and enhancement of environmental management of Fiji ports.

DESIGN AND IMPLEMENTATION

ADB's sector strategy for the new millennium¹ supported reform in public sector management, private sector development, and transport. The focus of ADB's country strategy for Fiji Islands for 2003–2005 was to support economic growth by (i) fostering good governance in improved essential public services through appropriate institutional arrangements, regulatory framework, and tariffs; (ii) enhancing local capacity and participation for stimulating economic activities and poverty alleviation, including alternative livelihoods and resolution of land use issues; (iii) strengthening policy formulation and reform implementation capacities to increase accountability and responsiveness in key government departments; and (iv) assisting in creating enabling conditions for private sector growth and developing public-private partnerships in revenue generating projects².

The project was consistent with ADB's country strategy in that it addressed the transport sector's ability to contribute to growth in international trade by boosting the capacity of the country's primary port infrastructure and improving the port management system. It incorporated measures directed to reform institutional arrangements, improve the regulatory framework, and create new opportunities for private sector participation. In addition, the project targeted establishing a lifeline and a relief port system to ensure supply of goods at times of national disasters. Since it is generally the poor that suffer most when transport of essential supplies is interrupted, this aspect of the project design is consistent with the goal of poverty alleviation.

In its Strategic Development Plan 2003–2005, the Government of Fiji identified as a key policy objective the improvement of shipping services and shipping infrastructure. An explicit target under this policy was the upgrading of Suva and Lautoka ports by 2005. The project is also consistent with ADB's Country Strategy Partnership Strategy 2007–2011, which identified the need to achieve faster and sustainable economic growth through, among other things, exports and restructuring of public and private sectors in order to achieve strategic priorities including the promotion of competition and efficiency and raising export earnings.

Future expansion of the capacity of the Suva port (new Suva-Rokobili terminal) would have required major investment, but the project extended the life of Suva's King's Wharf, delaying the need for this new development. Strengthening the wharf also made possible the use of more advanced cargo-handling equipment, allowing more cargo to be handled over the same length of wharf. This increases the capacity of existing facilities and further deferred the time when new facilities would be needed.

The project provided for a major reorganization of the container storage backup areas in Suva and the gate area to improve operating efficiency and capacity. In Lautoka, capacity was improved by lengthening the wharf and adding a second berth to allow berthing of larger vessels. A connecting bridge to the wharf also improved connectivity to road transport. Together, these developments provided a working environment

¹ ADB. 2000. *A Pacific Strategy for the New Millennium*. Manila.

² ADB. 2002. *Country Strategy and Program Update (2003–2005): Republic of the Fiji Islands*. Manila.

conducive to commercializing port operations, including allowing competition in stevedoring and cargo handling services, thus encouraging private sector development and greater public sector accountability.

The Maritime and Ports Authority of Fiji (MPAF) was responsible for the strategic development of the two ports, and had the technical skills required to manage the project effectively; as such, MPAF's general manager of technical services was made responsible for project implementation and overall administration of the project, including procurement, disbursement, administration, monitoring, and reporting on the consulting services and works. MPAF's other responsibilities include contract supervision and quality control. Design and supervision consultants were also selected for the detailed design of the civil works, preconstruction activities, and construction supervision.

PROBLEMS ENCOUNTERED

The initial project scope included only improvements at the port of Suva. Project processing was delayed by an attempted coup in May 2000, however, and by the time the Government was in a position to move forward, further growth in demand had put more pressure on capacity of Lautoka port. The project was reappraised in June 2001 and expansion of the port of Lautoka was added to the project.

Some adjustment of the contractor's construction schedule was made to accommodate the technical problems with soil stabilization at the Suva port. There was also a delay of 16 weeks in commencing civil works owing to a global shortage of steel.

During the early stages of the project, MPAF performed the roles intended by the project design. Under the sector reforms implemented during the latter stages of the project, however, MPAF ceased to exist. Most of its functions were transferred to a new entity, Fiji Port Corporation Limited (FPCL), which became the project's executing agency. The newly created FPCL has a management structure and capacity similar to that of MPAF, making it possible to maintain consistency and continuity in the management of the project.

Lastly, the MPAF/FPCL, as borrower, has not complied with a loan covenant requiring it to introduce competition in stevedoring services. However, privatization of stevedoring services is high on FPCL's agenda.

FACTORS FOR SUCCESS / FAILURE

The overall assessment is that the project was successful. The project was implemented as designed, completed within budget and within the time anticipated at appraisal.

Delay and disruption to the process arising from the coup of May 2000 was mitigated with a clear focus on delivering the project and the accompanying institutional reforms. ADB responded flexibly and appropriately to amend the project scope at a late stage in project formulation.

During implementation, ADB responded to issues as they arose and dealt with them promptly and efficiently.

In addition, the introduction of new software systems into the operational areas of Ports Terminal, Ltd. (PTL) and FPCL together with restructuring of the management of the wharf and container storage operations have contributed to greater efficiency. This made recording performance in cargo and container handling activities easier and will support data collection for future performance monitoring.

RESULTS ACHIEVED

The project achieved the following results:

First, the effective life of the main wharf at Suva has been extended, and capacity increased, by the physical improvements to King's Wharf. The outcome of positioning the ports to cater for growth over the next 15 years and to secure a major port facility against major seismic events has been effectively achieved. The ability of the critical infrastructure to withstand seismic shocks has been improved. This will lower risk of interruptions to essential supplies to the Fijian community in the aftermath of a natural disaster.

Second, the wharf's improved load-bearing capacity allows the use of more productive cargo-handling equipment, including the newly installed mobile cranes. This has led to more rapid turnaround of ships in port, reduced port congestion, and lower freight rates and shipping surcharges, which provide a stimulus to Fiji's international trade. Productivity improved from 5.23 containers per vessel hour in 1998 to 8.00 containers per hour using ships' gear at the time of the appraisal. Immediately before the new harbor cranes were commissioned, rates of around 11 moves per hour were being reported for larger vessels, with a range of 6 to 12 moves per hour depending on the vessel and the stow. Since the terminal reorganization and commissioning of the cranes, exchange rates of up to 20 moves per hour have been achieved. The improvement has resulted from the wharf improvements, which allow better utilization of heavy container handling forklift trucks, the use of harbor mobile cranes, and other efficiency measures.

Moreover, reorganization of the container stacking area (container yard) has allowed containers to be moved to and from the wharf apron more efficiently and increased the terminal's effective storage capacity. However, rigorous measurement of productivity gains is impeded by the lack of baseline data for key performance indicators, but new systems now in place provide a basis for future monitoring.

The capacity of the port of Lautoka has also been improved, and larger ships can be accommodated. The provision of two berths instead of one for major container vessels was intended to reduce potential congestion and encourage vessels to call directly at Lautoka. Ship call data already show a significant increase in the number of container vessels calling there.

In both ports, the project can be expected to bring improvements in environmental standards, particularly water quality, resulting from better management of ships' waste. Stronger penalties for environmental breaches by ship operators and masters should also deter polluters.

Lastly, from an institutional perspective, the project successfully facilitated continuation of the reform process through which the regulatory role of the ports administrator was to be separated from its operational management role. The regulatory functions are now covered by the Fiji Islands Maritime Safety Authority and with other government entities (e.g., the Commerce Commission) providing overview in specific areas.

LESSONS LEARNED

The inability to adequately establish performance indicators, targets, and baseline data has made systematic evaluation of the project more difficult than it may have been. High priority should be given in project implementation to ensuring that data (which in this case should have been available in the normal course of port operation and record keeping) is systematically collated as a project progresses.

The major investment in three mobile cranes by FPCL has complicated the introduction of competition in stevedoring. While the investment has clearly added to port efficiency gains, and could not have been made without the physical improvements delivered by the project, the consequences for the institutional reform agenda were not identified in time to review and plan in advance for the impact. In designing and implementing projects, the EA should be required to assess the probable effects of other investments in the sector upon the loan project and advise ADB accordingly. Similarly, the probable effects of changes to conditions of employment arising from privatization should be assessed, and technical assistance should be provided for change management if deemed necessary.

Likewise, the EA's inability to meet the loan covenants is a matter for concern. In future project design, the risk of noncompliance could be reduced by (i) better support for implementing covenants that require some technical input (such as the design and implementation of appropriate performance measures), (ii) closer monitoring and a stronger dialogue with the central government on the timely implementation of covenants that are beyond the EA's control (such as implementation of environmental regulations), and (iii) incorporating effective and proportionate sanctions for noncompliance in the loan agreement.

CONCLUSION (applicability to other programs)

Overall, the project was, and remains, highly relevant to meeting the objectives of FPCL and contributing to the wider objectives of the Government's SDP and ADB's country partnership strategy for 2007–2011.

By separating regulatory functions from day-to-day management of Fiji's major port, the project has been efficient in bringing about institutional changes. The physical works have allowed the port of Suva to defer forecast major port developments in a cost-effective manner.

The inability of the Borrower to meet the loan covenants should be address in future policy dialogue. Loan covenants are relevant to supporting successful project outcomes and align with the Government's policies of the time for sector reforms.

ANNEXES and/or REFERENCES

Asian Development Bank (2008). *Project Completion Report: Fiji Ports Development Project, Fiji Islands*. Available at <http://www.adb.org/Documents/PCRs/FIJ/32525-FIJ-PCR.pdf>