CHAPTER 6

Going Forward: Developing Regional Hub Ports in

Introduction

This chapter draws on the key lessons from the preceding chapters to point the way forward toward the development of regional hub ports in Africa. The emergence of such hub ports is important both for the regional economic integration of African countries and for their wider integration in the world trading system. As discussed earlier, the gradual opening up of African economies and their growing international integration have given rise to a corresponding increase in the demand for international transport services. However, few African ports are capable of handling the latest generation of post-Panamax vessels, and they are generally

ill-equipped for the dramatic changes in trade and shipping patterns that are currently under way.

In response, many African countries are aiming to modernize their ports and develop them into regional hubs through large-scale investment programs, to provide transshipment services for cargo from other origins destined for third countries. The momentum of modernization is being further fueled by the growing presence and consolidation of global shipping lines, integrated multimodal operators (covering rail–road–sea transport), and international terminal operators in African ports. These operators have been engaged in these countries for some time now and see that the time is ripe for an expansion of services in the African port sector.

Indeed, many African ports have the potential to become regional hubs. However, this outcome depends on the capital injections and other related activities, including policy reforms, that governments are able to put in place toward port development and regeneration. These planned investment and related activities also offer avenues for private sector participation in African port development. In particular, the dredging of African ports, many of which are characterized as too shallow for the latest generation of container ships, could be a frontline area of intervention for the private sector and development partners alike. This issue is elaborated upon later in this chapter. The aspiration of many governments and Port Authorities (PAs) to develop their ports into regional hubs augurs well for the increased competitiveness of the African shipping industry in the future; this will boost trade in the region and strengthening national economies generally. However, Africa can support only a few regional hubs and the key issues of *how* African ports can transform themselves into regional hubs, and *where* such hub ports should be located, is of critical importance.

This chapter examines this topic and focuses on the relevant issues facing African governments and International Financial Institutions (IFIs). The rest of the chapter is organized as follows. The next section summarizes the principal characteristics of African ports and the infrastructural conditions and policy reforms required to transform them into regional hubs. Against this background, there follows an examination of the comparative advantages of a number of key ports becoming regional hubs. The discussion then turns to the various key roles that IFIs can play in this process. The chapter ends with a summary of the key points impacting African countries in their efforts to modernize and transform their ports, to more fully integrate into the world trading system.

Developing African Ports into Regional Hubs: Physical Characteristics and Policy Requirements

A hub port can be described as an international or regional port that, in addition to the normal cargo-handling functions of import and export trade, also caters for so-called transshipment cargoes (in particular containerized cargoes) to and from major intercontinental or regional shipping routes, with the additional provision of services to a number of (usually

smaller and / or shallower) African ports. An analysis of potential hub ports generally centers on their physical characteristics (TEU capacity; depth of water; berth lengths; availability of quayside gantries and container-handling equipment, etc.) and their road/rail/air linkages to the hinterland.

Practically all hub ports in the world today handle a mixture of three main types of cargo:

- **captive cargoes** (destined for and / or originating from the direct hinterland of the hub port);
- **transit cargoes** (cargoes destined for and / or originating from the more remote hinterland and / or landlocked countries); and
- **transshipment cargoes** (sea–sea cargoes).

The potential of African ports to become regional hubs is determined by several factors, including the shipping services it provides, the port's physical characteristics and location, and the types of vessel it can handle. Several characteristics facilitate the creation and successful operation of transshipment hubs (see Box 6.1). The availability of a considerable volume of captive cargo is often cited as a Critical Success Factor for a port seeking to become a hub. The reason for this is that transshipment cargo tends to be "foot loose" and may easily be shifted to another port if circumstances (e.g. facilities and tariffs) are better there.[1]

Investing in port capacity is not in itself a sufficient condition to transform a port into a hub unless it also enjoys a strategic location, adequate water depth, and the facilities and performance to ensure low handling costs. A good corridor for transit traffic is another prerequisite, and this may require measures to facilitate a fast and efficient flow of traffic on the main trade corridors from the port to the landlocked hinterland. In this respect, a port's competitiveness depends not only on its own physical capacity and the services it can offer, but also on the quality and fluidity of the land transport networks that serve it (principally the regional interstate roads). Ports that benefit the most from this emerging trade competition tend to be located in countries that also possess good roads (without roadblocks), operational rail lines, and border posts with the least administrative formalities and swift customs clearance.

In effect, the most important policy considerations for governments looking to establish hub ports are how best to foster and finance integrated port and transport facilities and associated land uses. National port plans must be developed to cover modal integration and port-specific issues. A key requirement is the allocation of enough land for integrated development in the early stages of port planning, particularly for new ports. Also, linkages between rail and port

[1] A well-known exception to this Critical Success Factor is the Port of Salalah in the Sultanate of Oman. Practically all containers handled in this port (3.5 million TEUs in 2009) are transshipment containers. This relates to the function and location of this port. Salalah is located close to the convergence point where the large sea trade lane between Asia and Europe, and the North–South connection between Europe, the Middle East and Africa meet.

Box 6.1: Basic transshipment requirements of a hub port

Experience suggests that several port characteristics facilitate the creation of transshipment hubs:

- Location close to major world or regional shipping routes, leading to minimum deviation from that shipping route;
- Preferably already handling a considerable volume of base import and export cargo;
- Land area available for cargo storage and / or value adding activities;
- Access to a large hinterland, preferably with more than one transport mode;
- Sufficient depths in approach channel and the port and the possibility to increase the depth if required by the port users (shipping lines);
- Little or no queuing of ships ("the berth has to wait for the ship and not the other way around");
- Safe and secure port access from land and sea and a secured (ISPS) port area;
- Efficient ship and cargo handling operations;
- Good relations between port employers and employees (unions);
- Reasonable level of port performance;
- Active port business community;
- Banking and communication facilities;
- Limited or rather no corruptive practices;
- Stable political systems; and
- Regional role.

concessions should be made to provide the best incentive for multimodal integration. This requires governments of both coastal and landlocked countries to decide which transit corridors to support and develop. Coordinated system development provides the key to exploiting the major scope for traffic growth. The Ghana Gateway and the Maputo Corridor between the port of Maputo and South Africa, Swaziland, and Zimbabwe provide useful examples of this. Landlocked countries will likely want more than one alternative. Where the bottlenecks are at the seaports, the planning and development of inland ports (dry ports) warrant consideration, particularly for landlocked transit countries. The Ghana Boankra Inland Port is an example in the overall scheme of port development and trade facilitation.

Before the start of the global financial crisis, almost all major shipping lines started to order large numbers of 8,000+ and even 12,000+ TEUs vessels to be employed in the very lucrative and booming trade lane of Europe–Asia in particular. This meant that the "smaller" container vessels, mainly in the 4,000 to 6,000 TEU classes, began to be withdrawn from this route and replaced by the bigger sisters, in what is often referred to as the "cascading process," following the economy of scale principle. The 4,000 to 6,000 TEUs vessels were partly employed in the African liner services. The problem, however, was that only a few ports in Africa had sufficient depth to receive such mid-sized vessels.

Although the global financial crisis has caused some hiatus to this cascading

process, there are signs (since mid-2010) that it may reemerge in areas where booming trade between the major economic and production blocs proves to be sustainable. As such, an African port aiming to become a regional hub must ensure the development of a port with sufficient depth to receive the larger vessels that are becoming more and more commonplace on African shipping routes.

Traditionally, high sea freight costs have been a major impediment to the development of ports in Africa, which have typically been served by "Liner Shipping" and "'Conference Services." Liner services have both advantages and disadvantages. One major advantage is that the tariffs are negotiated beforehand and usually maintained during the contract period, which acts as a risk mitigation factor in terms of unexpected costs. The liner contract is a guarantee that each port of the line will be called at, irrespective of the volume of cargo to be loaded and/or unloaded. Conference Service agreements have a similar effect. Sometimes a number of shipping companies enter into a Conference Agreement, meaning that ships belonging to different shipping lines will maintain very similar services, tariffs and conditions, irrespective of the shipping company calling. The disadvantage of the systems is that the tariffs are usually high.

In this context of traditionally high freight rates, a port hub in Africa should help to lower the cost of trade for shipping lines and cargo owners. This would entail the move away from Africa's current multiple gateway system of medium-sized ports, toward the model of transshipment hubs with larger gateway feeder ports. For cargo owners, hub ports would offer savings in total yearly supply chain costs through increased shipping line competition and improved service levels and delivery times, while greater maritime activity would improve access to regional and global markets. The shipping lines would see better utilization with fewer stops and increased port efficiency and speed at the hub.

The necessity for a conducive environment for the creation of port hubs enjoins African governments to determine how best to develop state-of-the-art ports, and how to equip them with appropriate technologies and management skills. This determination should certainly involve the international private sector, particularly in the container terminal business. The prevalence of state-owned service ports in Africa has long been associated with low operational efficiency as well as a low concentration of global operators. A policy of attracting major international container lines and terminal operators — who are well acquainted with the advantages of scale in terminal operations and with the benefits of an efficient hub-and-feeder structure in the deep-sea trade — will serve to increase efficiency and lower costs.

In the last 10–15 years, the African port sector has witnessed a considerable number of reforms, including a scaling-up of public–private partnerships involving some of the major international players in port development. The reforms in Africa, as elsewhere, have suggested that the landlord port model has generally enjoyed greater success than the public services port model,

and is the best way to attract private sector participation.[2] On the other hand, the number of African countries that have introduced the landlord port model is very limited. The World Bank's Africa Infrastructure Country Diagnostic (AICD) Report of 2006 cites only two countries, Nigeria and Ghana, as having "comprehensively adopted the favored landlord port model."[3]

For government policies and reforms to achieve optimal efficiency in Africa's ports, they need to consider how best to introduce/incentivize competition. Over the last two decades, lessons from global port reforms have indicated the need to avoid monopolistic practices in ports privatization. The specific cases of Colombia, Argentina, and the United Kingdom show that building competitive environments tends to make ports more efficient and to lower costs, which benefits not just the Port Authorities, but also shipping lines, terminal operators, cargo owners, private investors, and end consumers. On the other hand, port reforms in several African countries seem to have been designed to minimize competition. Indeed, some African governments are even preserving government monopolies (Durban) or creating private ones (Tema).

Certainly, where cargo volumes are relatively low, as is the case in most African ports, inducing competition can be difficult. In such cases, an appropriate regulatory framework is essential. But again in a number of African ports, monopolies operate without there being a regulatory framework in place to monitor for anticompetitive activities (e.g., Maputo, Mozambique). Most countries in Africa lack a regulatory framework and tools to prevent anticompetitive practices on the part of port and multimodal operators. Only South Africa is currently taking steps to establish an Economic Regulator to address port anticompetitive behavior.[4]

[2] In Nigeria, for example, the Federal Government has made colossal savings of US$ 2.5 billion from port reforms. The Bureau of Public Enterprises (BPE) indicates that the Nigerian economy would save a further US$ 2.5 billion following the concessioning of the nation's ports over a 10-year period. This amount, which is equivalent to 5 percent of the country's Gross Domestic Product, is required by the Federal Government to maintain the ports. The successful implementation of the port reforms would quadruple cargo-handling productivity at the ports, reduce port operating costs by US$ 65–80 million yearly (about 20–25 percent) and reduce port charges by 20–30 percent, thereby saving port users between US$ 70 and US$100 million annually. The reforms would reduce the cost of Nigeria's imports by as much as 5–13 percent per annum, through increased efficiency, improved service delivery, modernized port development, and a general fall in the cost of shipping and clearing goods at the ports.

[3] Other countries engaged in the process of changing their port management system include Liberia and Sierra Leone. Also, the Tanzanian government has amended the National Port Law, while the Tanzania Ports Authority is in the process of changing from a public services port model to landlord port model.

[4] Regulation that ensures fair competition is rare. Only Peru, Australia, Colombia, and perhaps Mexico have well-established Economic Regulators to address pricing regulation. Authorities in many countries, even those of the European Union, seem unwilling to manage port anticompetitive behavior, despite their authority to do so. Given the difficulty regarding regulation, it may be essential for African governments to consider this in initial concession contracts with partners.

Comparing African Ports for Regional Port Hub Status

A considerable number of ports in Africa have the potential to develop into transshipment hubs. These are analyzed below, according to their geographical locations. On the Mediterranean coast of Africa, the main contenders are: Tangiers (Morocco), Damietta (Egypt) and Suez Canal Container Terminal (or Port Said East). In sub-Saharan Africa, the following ports have the potential to become major regional hubs: Dar-es-Salaam (Tanzania), Port Louis (Mauritius), Djibouti (Djibouti), Mombasa (Kenya), Abidjan (Côte d'Ivoire), Durban and Cape Town (South Africa), Tema (Ghana), Douala (Cameroon), Lagos (Nigeria), and Dakar (Senegal).

(i) Mediterranean Coast

Tangiers (Morocco) has already been transformed into a "Pure Transshipment Port" (PTP), which is providing regional feeder services, especially to the West African coast. Tangiers' development into a PTP exhibits most of the key criteria highlighted earlier for successful regional port hub development. The port is well positioned — sitting at the western end of the Strait of Gibraltar, which divides Africa and Europe. Container traffic lies at the heart of the strategy of the port, with container volumes reaching 1.2 million TEUs in 2009. The two container terminals already opened are each managed by a consortium of international terminal operators. The port has the physical infrastructure in place to handle more than 3 million TEUs a year, thus Tangiers will have spare capacity for some time to come. Much of Tangiers' initial appeal lay in its lower labor costs. As well as political stability, Morocco boasts a business-friendly legal system, attractive incentives for FDI, advanced infrastructure, and a competent and highly trained workforce. This has attracted more than 2,500 foreign companies to locate their businesses in the country.

(ii) West African Coast

Along the West African coast, in terms of size and activity, the **Port of Lagos (Nigeria)** is the most important. Its annual merchandise traffic, in excess of 30 million tonnes, represents approximately 55 percent of Nigeria's port activity (excluding hydrocarbon exporting terminals) and 25 percent of the combined ECOWAS member countries' port activity. However, the Port of Lagos essentially serves the national hinterland and only the outlying areas of Niger, Cameroon and Benin, an area that accounts for more than half of the population. However, the concentration of port activity is largely on the national hinterland, which limits the port's importance as a regional hub.

The Nigerian authorities are undertaking investment programs with the aim of transforming the port into a regional hub. Under the Lagos Free Trade Zone (LFTZ) initiative, the Nigerian Ports Authority and the Lagos State Government are to build the first private deepwater port in Lekki, 60 km distant from the Lagos metropolis. The total cost is estimated at US$ 6 billion and the port is expected to be ready in 2011. The rationale behind the port is to provide a deepwater port for Nigeria, thereby allowing larger vessels to berth. It is also intended to relieve

the congestion in the Lagos/Apapa ports. Also the port is located to take advantage of the future development of the new Lagos Free Trade Zone.

By contrast, the ports of **Abidjan**, **Tema**, and **Dakar** play a more regional role in West Africa. These ports do not rely solely on their national hinterland in order to thrive. The development of the West African road network, together with an increasing number of alternative transport services rendered to the landlocked regions, have increased their regional roles but placed them in direct competition with each other.

Considering the fact that regional hubs are usually established in ports with substantial cargo volumes, **Abidjan (Côte d'Ivoire),** with a capacity of 640,000+ TEUs, appears a more likely candidate to serve as the regional hub. The Ivorian government aims to expand the port further from an import–export point to a gateway for landlocked countries in West Africa. The Port Authorities aim to develop the port's capacity to handle volumes for Burkina Faso, Niger, and Mali, which is expected to grow strongly over the next five years, as will transshipments for ports in the subregion. To this end, a bond issued by Abidjan Port has been oversubscribed by over 30 percent, raising 30 billion CFA francs (US$ 56 million) to finance port development.

However, **Tema (Ghana)**, which is a new and highly mechanized terminal, offers substantially more efficiency and berth productivity, compared to other ports on the west coast of Africa. Tema is the first to offer a terminal with the efficiency required for regional hub services. Though Tema has lower volumes (about 350,000 TEUs), this is enough to attract main regional feeder services, thus assigning Tema regional hub status. Significantly, the port is currently expanding its berthing facilities and working on achieving greater depth in order to attract more cargo. The government is aiming to achieve 14 m depth (currently it stands at 11.5 m) and has dredged berths 1-6. The port is also focused on reducing the turn-around time for vessels which currently stands at 1.7 days and to ensure that the cost of doing business is one of the lowest in the subregion *(Otal Trade Watch, July 2010)***.**

(iii) East African Coast

Along the East African coast, Dar-es-Salaam (Tanzania), Port Louis (Mauritius), Maputo (Mozambique), Durban (South Africa), Djibouti, and Mombasa (Kenya) are the major ports with the potential to become regional hub ports. The successful completion of planned investment programs in these ports will determine the extent to which they are transformed into regional hubs.

At present **Durban (South Africa)** emerges as a frontrunner in terms of size and activity. Durban is Africa's busiest general cargo port and home to one of the largest and busiest container terminals in the southern hemisphere. The port handles the greatest volume of seagoing traffic of any port in southern Africa. However, Durban's cargo-handling demand has exceeded the terminal's handling capacity, causing berth congestion and forcing carriers to impose penalty surcharges. Under the government's current program for the port, an additional capacity of 600,000 TEUs is being developed to bring the total container capacity of the port to 3.6 million TEUs by 2011. This project includes

Durban container terminal's reengineering project, which will realize the true potential capacity of this premier port.

The port of **Dar-es-Salaam (Tanzania)** is also well placed as a transshipment hub, ideally located to meet the export and import needs of Tanzania's landlocked neighbors, namely Burundi, Malawi, Rwanda, and Zambia. Also, Dar-es-Salaam has a number of inland depots for landlocked countries that import and export via the port. However, Dar-es-Salaam has not been able to take full advantage of its position due to limited capacity, which has led to the diversion of consignments to the neighboring port of Mombasa. Besides, most of the inland depots are currently located close to the port, leading to serious road congestion and pollution.

To remedy the situation, the Tanzania Port Authority is aiming to strengthen the port's container-handling capacity. A National Port Strategy Study undertaken in 2008 recommended two options: (i) development of two additional container berths in the port of Dar-es-Salaam (Berths 13 and 14); and (ii) development of a deepwater port along the coast (several locations have been identified). The expansion program to build the second container terminal is estimated to cost around US$ 400–650 million.

Furthermore, Tanzania is investigating the feasibility of the development of a dry port (also known as an inland port) facility as a solution to the problem. The major objective is to decrease the usually long dwell times of containers destined for landlocked countries by moving them by rail (under bond) to the dry port located some 40 km away from the Port of Dar-es-Salaam as soon as basic administrative procedures have been completed. Movement by rail will reduce the need for road transport which, in turn, will result in less road congestion in and around the port and the city and reduce its pollution effect. The development of the dry port opens opportunities for private investments in terms of development and/or management, as well as participation by the landlocked countries that will benefit from this initiative. Moreover, it will open the way for investment in upgrading and repairing the Dar-es-Salaam railroad, which would have large spillover effects, notably by revitalizing traffic at the port of Bujumbura.

In respect to **Mombasa (Kenya)**, the Kenya Ports Authority (KPA) has finalized a Vision 2030 that includes PPP participation in the development of port infrastructure and provision of services. The scheme provides for the dredging of the Port of Mombasa to allow larger vessels to the port and the benchmarking of facilities and services to international standards. Another element of Vision 2030 is the development of a new deepwater port at Lamu Island. In May 2010 the Kenyan government awarded a contract to Japan Port Consultants (JPC) to carry out a feasibility study for Lamu Port, which experts hope will position the country as a major transshipment hub. The first port at Lamu is being developed with assistance from the governments of Qatar and China and is scheduled for completion at the end of 2011.

The Port of **Djibouti** is creating an additional 3 million TEUs, to achieve a total capacity of 3.4 million TEUs. In June 2000 the government of Djibouti signed a management

contract with Dubai Port World (DPW), to strengthen the import and export function of the port (some 90 percent of all cargo handled is Ethiopian cargo). DPW developed plans to build a large deepwater container facility at Doraleh (some 10 km from the Port of Djibouti). The maximum capacity of this terminal will be 1.7 million TEUs (compared to the 250,000 TEUs of the present terminal in Djibouti). The project will be built on the basis of a BOO (Build-Own-Operate) contract and the estimated cost of the project is about US$ 350 million. The first phase of Doraleh (Phase 1-A) was opened for business in May 2009. Phase 1-A (capacity 800,000 TEUs) was financed through equity. Phase 1-B (capacity 1.1 million TEUs) will be financed through cash reserves and bank loans. The anticipated container flows are import/export, transit and transshipment.

(iv) The Role of Public–Private Partnerships

Thus far, it is apparent that the potential does exist for a number of African ports to become regional hubs, although as indicated earlier, this will depend on the success of planned investments and related modernization of these ports. The development of Tangiers demonstrates the successful role that public-private partnerships can play toward the desired outcomes and point the way forward for other African governments and port authorities to replicate. In effect, the investment programs in those other ports call for similar partnerships in port development in Africa.

The Role of IFIs in the Development and Improvement of Ports and Related Infrastructure

As African countries contemplate strategies for transforming their ports into regional hubs, they should pay heed to the important role that IFIs, such as the African Development Bank, can play in the process. IFIs can facilitate private sector participation as well as provide finance for port development. These issues are discussed at greater length below.

Provision and /or Facilitation of Expertise, Training and Education

Expertise: As indicated earlier, port reform and the introduction of PPPs, especially leading to the establishment of landlord port management systems, are highly complex exercises. They require expertise in many disciplines such as legal, operations, finance, economy, etc. Selecting the best professional expertise is a difficult task in itself and can only be done adequately when professional insight, oversight, and market knowledge are available. IFIs can support governments and national Port Authorities to produce the requisite documents; they can also avail experts in the port reform processes. Also, the experienced and professionally qualified consultants that governments and port authorities rely on are expensive and IFIs may be prepared to contribute financially to these costs.

Training and Education: In order to create a good working relationship between the government, national Port Authority, the consultant, and the potential private sector

participants, the public party should have sufficient in-house expertise to meaningfully engage in the process. If such expertise is not available, education and training are extremely important. Workshops and seminars on dedicated topics are a very good means to point out the essential stages of the processes to be followed. This is another area where IFIs may provide a useful function, either with the involvement of their own staff or in the role of a financier and/or facilitator.

Arranging /Facilitating Financing Deals

Dredging: As indicated earlier, many African ports are characterized as rather shallow. Developments in the international shipping market require ports to have sufficient water depth to allow larger vessels to call. Experience shows that initial capital and/or maintenance dredging projects are difficult to realize and can be expensive undertakings in relatively remote areas. IFIs, and the AfDB in particular, could assist African ports that have similar dredging problems to jointly enter into a dredging contract with a dredging company. The Bank could facilitate the introduction of Performance Based Maintenance (PBM) dredging contracts between the African countries and a dredging company (see Box 6.2). The cost of this to the African countries would be lower than if they were to draw up a contract on an individual country basis; moreover the ports would be assured, for the duration of the contract, that the guaranteed water depth would always be available.

Regional Investment: In the context of regional cooperation, IFIs could assist countries, both coastal and landlocked, to invest, possibly through an international consortium, in major new port development investment projects. The plans of the governments of Kenya and Tanzania to build a new deepwater port on their coastline represent such an initiative. Such a

Box 6.2: Performance Based Maintenance (PBM) dredging contract

A PBM dredging contract is an agreement between a client (for instance a Port Authority) and a dredging company. The contract stipulates that the dredging company, at all times during the contract period, guarantees that the agreed water depth is always available. The dredging company regularly surveys the depth in the contract area. If the contract depth in a certain location, due to sedimentation, is about to be reached, the dredging company dredges that area. The client also makes regular soundings (depth surveys). If these show that at a certain location the dredging company is in default (i.e., the depth is less than the contract depth), the dredging company is liable to pay a fine.

Unlike contracted capital or maintenance dredging campaigns, the dredging company is not paid for the number of cubic meters of silt it has removed. The agreement between the parties is made on the basis of a long-term estimate of the dredging quantities during the contract period. This may result in higher dredging costs per cubic meter than in case of a single dredging campaign. But the principal advantage is that the Port Authority is guaranteed that the required contract depth is always available. The costs of the bidding process of a dredging campaign may, moreover, well outbalance the possibly higher cubic meter dredging costs of the PBM contract.

facility, including efficient and sufficient hinterland connections, will require significant financial capital outlay, which the IFIs may be able to provide or facilitate.

Railroad Corridors: The importance of the railroad in Africa for freight movement has already been demonstrated (see Chapter 4). However, even though the concessioning of railroads has met with some success and has increased traffic volumes as well as increased labor productivity, this mode of transport remains poorly developed across the continent. Yet railroads are an economically sound choice for long-distance transport of large volume bulk commodities, agricultural products, and general and containerized cargoes across the continent for onward transit to African ports and beyond. In addition to helping to mobilize funding for strengthening and expanding this inland transport mode, IFIs can provide advice and expertise to countries that enter into railroad concessioning agreements.

Provision of Other Catalytic and Direct Financing for Port Development

As there is a great need to attract more external investment to the port sector in Africa, IFIs can galvanize the private sector in other ways and participate directly in port finance. IFIs may have differing aims, and this will play an important role in their choice of projects. However, these institutions have the common dual mission of "transitionality" (supporting the move from state to market economy) and "additionality" (providing "something more" than a commercial lender would on a given deal). In this context, IFIs may be well positioned to provide assistance to African governments in the reform process through the design of appropriate port frameworks; restructuring and divesting port institutions; and capacity building for port planning and regulation. In addition, IFIs can assist African governments by attracting and negotiating with private partners to assure substantial benefits for the African partner country. Another consideration is that IFIs are well experienced in the area of risk mitigation mechanisms, which acts as a further incentive to attract private capital into port projects.

IFIs could also directly finance critical elements of port infrastructure. As indicated earlier (Chapter 5), the AfDB has since 1973 successfully participated in infrastructure financing and port development in Africa. IFIs, including the AfDB, are well placed to focus directly on the private sector segment of port infrastructure in African countries, using instruments such as the traditional lines of credit to increase private investment. The long-term tenor of such lines of credit will allow borrowers to extend the maturity of their lending operations, thereby making the port development programs more commercially attractive to investors.

In addition, IFIs could use varied instruments, including equity and quasi-equity products and guarantees to increase the participation of the private sector. Through these, IFIs would bring in other investors with the capital, skills, and know-how needed for African port development. The AfDB Local Currency Project is an example of a successful mechanism that could be employed to increase private participation in ports. This project brings increased investor attention to Africa and brings visibility to African currencies and bond markets. It addresses the need for local

currency loans that eliminate currency risk for borrowers and promotes international best practices. A wider application of this activity focused on African ports could be instrumental in contributing to the financing needs for port development.

Concluding Remarks

This chapter has highlighted the requirements for the development of regional hubs in Africa, analyzed the potential of specific African ports to become regional hubs, pointed to the opportunities available for private sector participation, and has outlined some of the contributions that IFIs can make in the process.

African ports are presently characterized by high sea freight rates and high levels of congestion. Their transformation into more efficient port hubs will not only reduce these rates but also contribute toward inter-African economic integration, as well as the continent's fuller integration into the world trading system. Several African governments and Port Authorities are aiming to develop their ports into hubs. Improvements planned in many other ports in the continent will also offer opportunities for private participation.

Key measures in the process to transform ports into regional hubs include fostering and financing integrated port and transport facilities and associated land use. Also, policies that introduce and/or enhance competition are necessary to increase efficiency. In both these areas, global experiences have shown that the transformation of a public services port into a landlord port model often leads to a highly successful outcome.

In this context, IFIs can play a major role through the provision and/or facilitation of expertise, training and education, whereby experienced professionals can assist African governments in the preparation of their port reforms. In addition, IFIs are well placed to assist in arranging and/or facilitating public–private financing deals that are badly needed to carry out major rehabilitation and expansion programs for African ports.