World Bank Port Reform Toolkit

The toolkit comprises:

- Module 1: Framework for Port Reform
- Module 2: The Evolution of Ports in a Competitive World
- Module 3: Alternative Port Management Structure and Ownership Models
- Module 4: Legal Tools
- Module 5: Financial Implications of Port Reform
- Module 6: Port Regulation
- Module 7: Labor Reform
- Module 8: Implementation
- Glossary of Port and Shipping Terms
- Financial Model (English) (requires MS-Excel)*
- Financial Model Manual (English)
- Financial Model (French) (requires MS-Excel) *
- Financial Model Manual (French)

*The macros contained in the MS-Excel Financial Model are essential for running the Model. It is important to enable macros when prompted.

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The World Bank
PORT REFORM TOOLKIT
Overview

OBJECTIVES

The process of institutional reform is complex. Moreover, most countries undertake the kinds of fundamental institutional reforms that shift boundaries between the public and private sectors less than once in each generation. Hence, the knowledge necessary to carry the reform process forward needs to be built up in most countries from a near zero base. The port reform toolkit is designed to lower the learning curve for institutional renewal by providing background information, concrete examples, specific tools and methods which policy makers and reformers require to proceed with the confidence that genuine knowledge affords.

The complex reform process through which the Toolkit navigates policy makers is a worthwhile journey. While the reasons for engaging in port reform are many and varied, the benefits can be quantified as they accrue to exporters, consumers, shippers and entrepreneurs. A successful privatization program may free governments of unnecessary expenditures, releasing funds for more socially needy government programs, release bottlenecks to trade and economic development and motivate the adoption of new regulations that protect the environment and improve workman and navigational safety. More broadly, benefits expectations can be summarized as follows for the main stakeholders:

- **Governments:** at the macroeconomic level, to improve external trade competitiveness by reducing transport costs, and in particular the cost of port services, and improving port efficiency at the sea/land interface; at the microeconomic level, to alleviate financial burden on national budgets by transferring part of port investments and operating costs on the private sector, and incidentally, raise revenues from assets divestitures;

- **Transport and Terminals Operators:** more cost-effective port operations and services, allowing for more efficient use of transport assets and better competitive positions on transport markets, and more business opportunities in growing sectors (For example, container operations);

- **Shippers, Exporters/Importers:** reduced port costs, and as a consequence of more efficient port operations, lower maritime freight rates, allowing lower cost of imported inputs and better competitiveness of exports on external markets; and
Consumers: lower prices on consumer goods, and better access to a wider range of products through increased competition between suppliers.

In Colombia, for instance, the liberalization of labor practices along with the transfer of most port services to the private sector has resulted in large and rapid improvements in productivity, lowers fees for port users, and very attractive returns for the concessionaires. Similarly, in Argentina, the improvements following the concessioning of terminal operations in Buenos Aires have been dramatic: port charges and shipping tariffs have declined sharply, and labor productivity has nearly quadrupled, with cargo volumes up by more than 50%.

The purpose of the Port Reform Toolkit is to provide policy makers with effective decision support in undertaking sustainable and well considered reforms to public institutions which provide, direct and regulate port services in developing countries. In particular the purpose of the Toolkit is to provide public officials with support in:

- understanding the needs, challenges and risks for sector reform and institutional redesign which are emerging from the changing business environment surrounding port operations;

- choosing among options for private sector participation and analyzing their implications for redefining interdependent operational, regulatory and legal relationships between public and private parties;

- preparing legislation, contracts and institutional charters to govern private sector participation;

- managing the transition to increased private sector involvement

Resources are not readily available which address port institutional reform in a comprehensive and systematic way or which clearly explain the processes involved in re-engineering public port institutions. The port toolkit is designed to fill this knowledge gap and to provide port reformers with decision support tools, tested and proved institutional reform tactics and guidelines which represent “best international practice.”

The Toolkit draws together practical institutional designs and transferable modalities for increasingly private sector involvement without compromising the public interest. It presents “best international practices” in a manner that is relevant to decision-makers. The Toolkit is designed to be easily understood by non-specialists. Thus it attempts to make general points with concrete examples. It is illustrated with experience drawn from recent port reform activities around the world.

While the main audience for the toolkit is public officials in developing countries who are responsible for port sector reform, the Toolkit is also of interest to other government officials, to executives with port service companies, shipping companies, port consultants, and companies dependent on port services.
The Toolkit is made up of eight modules. The framework module sets the stage for all of the other modules that follow. It provides a unifying “decision framework” which policy makers can use to guide them—step-by-step--through the processes of reforming and re-inventing port institutions. It also provides a common language and a set of concepts which are used throughout the Toolkit and which represent the common language, which port reformers use in communicating with their various constituencies. Importantly, the framework module also includes a road map for the other modules that follow. It explains the interrelationship of these modules with one another and their relevance to the framework presented in this keystone module.

With this understanding, the framework module will unfold as follows:

1. Context for the Framework Module

2. The Port Business Environment

3. A Road Map for the Port Reform Process
   3.1 Setting Reform Objectives and Planning for the Creation of Value
   3.2 Reform Policy Decision Context
   3.3 Modalities for Private Sector Involvement
   3.4 Modes of Public Interest Oversight
   3.5 Financial Implications of Port Reform: Risk Allocation and Funding
   3.6 Adapting the Legal Framework
   3.7 Responsibility for Labor Settlement
   3.8 Implementation Responsibility
   3.9 Sequencing Transactions
   3.10 Preparing Transactions.

4. Pulling It All Together
   4.1 Strategic Preparation
   4.2 Legal Adaptation
   4.3 Regulatory Framework Establishment
   4.4 Transaction Preparation

The framework module therefore lays out an ordered set of decisions that are linked together logically as well as in their time order for consideration. For each decision the toolkit attempts to articulate the principle options and alternatives which are available to policy makers and to assess the expected consequences associated with each option based on recent international experience. The framework is presented in the form of a “decision tree”, which thus provides a background for understanding the subsequent modules which are:

- **Module 2**: The Evolution of Ports in a Competitive World: the roles and functions of ports; forces shaping port dynamics in the 21st Century

  *Readers of this module should be able to place their ports in the context of current and historic port developments and to understand the major trends shaping the ports of the future.*
Module 3: Finding the Right Structure for Your Port: description of different port structures and ownership models; identification of strengths and weaknesses
Readers of this module should be able reach a decision about the most effective, efficient, and feasible structure or their ports, given each country’s/local’s unique economic, political, and social environment.

Module 4: Port Reform Options: description of options; identification of strengths and weaknesses; institutional and legal frameworks; implementation strategies; expected results
Readers of this module should be able to understand and take steps to develop specific port reform measures based on the port’s/government’s economic, financial, political, and social goals and objectives.

Module 5: Financial Implications of Port Reform: risk allocation among port stakeholders; potential sources of funding for the reform process; pricing port services to achieve revenue and public policy objectives.
Readers of this module should gain an appreciation for port finance and its relationship to reform as well as how the financial risks and rewards vary from one reform option to another.

Module 6: Overseeing the Public Interest in Ports: defining the public interest; description of oversight mechanisms and techniques; elements of the public interest
Readers of this module should gain a solid understanding of oversight mechanisms and methods; the role of regulatory bodies, inspections and audits; reporting requirements; and the interplay between competition and regulation.

Module 7: Labor Reform and Related Social Issues: institutional, legal, and industrial frameworks for port reform; establishing a productive dialogue among port stakeholders; rationalizing the workforce; overcoming roadblocks
Readers of this module should be able to plan for and implement rationalization of port labor in a manner that treats affected parties fairly while achieving essential efficiency and economic improvements.

Module 8: Implementing Port Reform: how to get from concept to effective implementation
Readers of this module should receive practical advice on how to take the many elements of port reform and put them into a procedurally logical and politically feasible sequence of steps that maximize the chances for success.

A wider range of reform models and of public/private partnership formats exists for the delivery of port services than for any other infrastructure intensive service sector. This is because the ensemble of services provided by seaports is wider and requires more diverse and specialized skills and involves more categories of service indivisible assets than other public/private institutions. Although the toolkit does not elaborate on all models available to sector reformers, it does define the options on either end of the public-private spectrum as well as the most common risk-sharing arrangements such as concessions and terminal operating leases. Importantly, it also provides tools for assessing hybrid options and for understanding their merits and risks.

In dealing with reform in the port sector, the World Bank has tried to pool knowledge from around the world. This knowledge is abundant. Over the past 10 years more than
100 transactions have been completed which involve increased private sector participation in the sector. The problem confronting public policy makers when they take up the challenge of port reform is not a lack of information, but rather a lack of useful knowledge which they can use to support their own process of reform.

The toolkit will make use of a diversity of communication media to convey knowledge and insight to its users, including narrative text, mini case studies, graphics and stylized representations of decision processes. The objective of the World Bank in developing this toolkit is to provide not only a comprehensive but also an easy to use and apply toolkit for port reform.

The Port Reform Toolkit could be elaborated thanks to the financing contributions of the following organizations:

- The Public Private Infrastructure Advisory Facility (PPIAF)
  *a multi-donor technical assistance facility aimed at helping developing country governments improve the quality of their infrastructure through private sector involvement. For more information on PPIAF, please see their website at [http://www.ppiaf.org/](http://www.ppiaf.org/).
- The Netherlands Consultant Trust Fund
- The French Ministry of Foreign Affairs
- The World Bank

The Port Reform Toolkit Modules have been prepared with the contributions of the following organizations, under the management of the World Bank Transport Division:

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