Case Studies in Public-Private Partnerships in Latin America and the Caribbean

Kingston Container Terminal (Jamaica)

Ancor Suárez Alemán
José Yitani Ríos
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Public-Private Partnerships in Latin America and the Caribbean: Case Studies

This series of case studies in Public-Private Partnerships (PPP) in Latin America and the Caribbean aims to present situations and lessons learned for pedagogical purposes, and to show the region’s experience in infrastructure development and provision of services through PPP schemes to a wide audience. This series is the result of the work of the PPP team of the Inter-American Development Bank of the IDB, led by Gastón Astesiano. The coordination of the cases has been carried out by Carolina Lembo, Ancor Suárez Alemán, and José Yitani Ríos, specialists from the IDB, in collaboration with Julio Franco Corzo of IEXE Editorial for the adaptation, editing, design, and layout of content. The cases are developed exclusively as a basis for the debate, analysis and reflection of experiences and are not intended to serve as a guarantee, a primary source of information, or as an example of effective or ineffective management.

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Public-Private Partnerships in Latin America and the Caribbean
Case Studies

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Project Executive Summary

Jamaica is the fifth most populous country of the Caribbean islands (2.8 million inhabitants) and third in terms of GDP. The Port of Kingston is the 8th port in freight cargo in Latin America and the Caribbean, and an important hub in the Caribbean, along with the ports of Colón in Panama, and Cartagena in Colombia.

The expansion of the port of Kingston was motivated by the strategic vision of the Government of Jamaica to strengthen the country’s position as a strategic logistics hub to leverage on the expansion of the Panama Canal. The expansion of the Panama Canal, which took place between 2009 and 2016, increased port traffic to the Caribbean and enabled the transit of new mega cargo vessels (known as post-Panamax vessels). Therefore, the Government of Jamaica decided to expand the container terminal at the Port of Kingston to receive these post-Panamax vessels.

The transfer of the Port’s associated operations and maintenance to the private sector under the concession contract was considered in the light of the Government’s prior experience in Public-Private Partnerships. The previous experiences of the Government in Public-Private Partnerships (PPP) implemented in the country were conducive to choosing this scheme for the project. The signing of the PPP to finance, expand, operate and maintain the Kingston Container Terminal took place in April 2015 while the post-signing deliverables and transfer of the operation of the Terminal to the new operators took place on July 1, 2016.

The 30-year concession includes the expansion of the capacity of the terminal from 2.8M TEU to 4.5M TEU in 3 phases with an estimated investment of US$452 million for the first phase. The expansion of the terminal’s capacity to 3.2M TEU contemplated in phase 1 is completed. Also, since 2018, the access channel was dredged to 14.5-meter draught, enabling the operation of post-Panamax vessels.

The private partner - Kingston Freeport Terminal Limited- KFTL obtained financing for Phase 1 from the IDB amounting to US$ 205 million. Currently, the Kingston Container Terminal is the largest infrastructure project supported by the Inter-American Development Bank Group in Jamaica without the issuance of Government Guarantees.
Public-Private Partnerships in Latin America and the Caribbean

**Technical information**

**Involved participants:**

- **Private Sector.**
  - Private partner: “Kingston Freeport Terminal Limited” (KFTL). Composed of the “CMA CGM” companies (60%) and “Terminal Link” (40%);
  - Société de Promotion et de Participation Pour la Cooperation Economique (Proparco) - Financing;
  - Deutsche Investitions – und Entwicklungsgesellschaft mbh – (DGE) – Financing;
  - CIBC First Caribbean – Financing (IDB Invest Syndicated Loan)
  - CIFI – Financing - (IDB Invest Syndicated Loan)
  - The Netherlands Development Finance Company (FMO) - (IDB Invest Syndicated Loan)
  - PriceWaterhouseCoopers. Advisor in financial structuring and manager in the bidding process.

- **Public sector.**
  - Port Authority of Jamaica (PAJ)

- **Multilateral Agencies.**
  - IDB Invest - Financing

<table>
<thead>
<tr>
<th>Location</th>
<th>Port Authority of Jamaica (PAJ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Infrastructure</td>
</tr>
<tr>
<td>Bidding organism</td>
<td>PAJ</td>
</tr>
<tr>
<td>Term</td>
<td>30 years</td>
</tr>
</tbody>
</table>

**Objective:**
To expand the capacity of the Kingston Container Terminal, from 2.8M TEU to 4.5M TEU, and to improve its efficiency to accommodate post-Panamax vessels\(^1\), which can now transit the Caribbean since the expanded Panama Canal started operations in June 2016.

**Project components**

- **Phase 1:** Capital dredging\(^2\) at depths 80% for post-Panamax vessels (14.2 meters) and strengthening of the existing quay walls. Optimizing and expanding the terminal capacity from 2.8 million TEU per year to 3.2 million TEU per year within 6 years after the handover date. Infrastructure and equipment budget: US$ 259 million. Completed at the end of 2018.
- **Phase 2:** Dredging at depths 100% post-Panamax (15.5 meters). The plan will be ready before 2026, and the construction works would start before 2028, depending on the existing market conditions. Infrastructure and equipment budget: US$ 250 million.
- **Phase 3:** Subject to the market conditions and a further agreement between the PAJ and the private partner. It would comprise the building of a new deep-water quay with a 15.5-meter draft for post-Panamax vessels.

**Current state**
The signing of the PPP agreement was on April 7, 2015. Phase one of the project is complete.

**Guarantee to granting authority**
The private partner provided a security bond of US$ 15 million upon signature of the PPP agreement.

**Costs and Financing structure**

- **Initial fixed payment of the operating partner to the granting authority**
  - US$ 75 million, value of the received infrastructure

- **Variable fee paid monthly by the operating partner**
  - 8% of gross revenue from the operation

- **Expected increase in the capacity of the terminal**
  - Phase 1: 400,000 TEU, +14% of the current capacity
  - Phase 2: 1.3 million TEU, +61% of the current capacity

**Phase 1 cost and financing**

- **Phase 1 Total Cost:** US$ 452 million.
  - KFTL equity and internal funds: US$ 187 million (41%)
  - Financing: US$ 265 million (59%)
    - IDB: US$ 205 million (including A and B-loans) (45%).
    - Proparco: US$ 30 million (7%).
    - DGE: US$ 30 million (7%).

**Fixed fee of US$15 million per annum**
Concession fee amount paid quarterly (US$3.75 million) by the operating partner to Port Authority of Jamaica (PAJ)

**Infrastructure and equipment budget**
- US$ 509 million (Phases 1 and 2)

**Results**

- **Expected increase in the capacity of the terminal**
  - Phase 1: 400,000 TEU, +14% of the current capacity
  - Phase 2: 1.3 million TEU, +61% of the current capacity

**Estimated construction schedule of Phase 1**
- 5 years

**Sources:**
- PAJ: April 7, 2015. “The concession agreement for the further development, operation, expansion and subsequent transfer of the KCT”.

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\(^1\) Also known as Neo-Panamax, which can navigate through the new locks of the expanded Panama Canal, measuring 366-meter long, 49-meter wide and 15.2-meter draft. They have a cargo capacity larger than 4,000 TEU (Twenty-foot Equivalent Unit), equal to the capacity of a 20-feet (6.1-meter) standardized container.

\(^2\) Dredging duties in areas not previously dredged or where dredging is carried out at depths greater than those dredged in the last 10 years.
Project relevance

The PPP agreement of the Kingston Container Terminal is highly relevant for the country and the Caribbean region. The reasons for its relevance are summarized below:

1. High impact in the transportation sector and commerce. Due to the port’s geographic location on a direct line between the U.S. and the Panama Canal, and between Europe and the Panama Canal, the project enables the country to benefit from the increased transit of oversized cargo vessels in the Caribbean, as well as from the increase in commerce between China and the Western hemisphere.

2. Increased private sector participation. The project contributes to the expansion of private sector participation in the Jamaican economy and particularly in infrastructure, given the long-term agreement with the private partner and works to be executed.

3. Demonstration effect. The project provides a benchmark and lessons learned for future port PPPs in the Caribbean region. It reflects the efforts and consistency of the Government of Jamaica to implement efficient and sustainable PPPs, in a context of large infrastructure investment needs.

Context of infrastructure and PPPs in Jamaica.

Overview.

In 2014, the Caribbean Development Bank (CDB) estimated that the Caribbean region needed to invest US$ 21.2 billion for 10 years to improve and increase the size of its infrastructure. Despite the needs, Caribbean countries face a series of common challenges for developing infrastructure. First, Caribbean countries are small, which restricts economies of scale in infrastructure investment. Also, various countries have graduated to upper-middle and high-income status, which limits their access to concessional financing. They too have underdeveloped financial markets,
limited access to global capital markets and fiscal constraints⁴. Finally, there are highly vulnerable to climate change.⁵

The use of PPPs in the Caribbean has been heterogeneous among countries. Most have less experience in negotiating and implementing PPPs, and few have implemented multiple projects⁶ with mixed results in the past. The most commonly observed problem is the delay in the delivery of infrastructure, generally caused by a lack of technical capabilities within the governments for structuring projects, which result in unreliable estimates of costs, demand, and value for money analysis. Another common problem is the lack of regional support mechanisms, which entail organizations composed of other private, public and multilateral organisms aiming to build institutional capacities and support the development of PPP projects.

Caribbean Public-Private Partnerships Toolkit

To assist the Caribbean governments in these matters, the Caribbean Development Bank, the Inter-American Development Bank, the Multilateral Investment Fund, the World Bank Group, and the Public-Private Infrastructure Advisory Facility created an 18-month regional support mechanism in March 2015. The main objectives were to build institutional capacity and expertise in the public sector, support the development of PPP projects, assess the need for regional PPP units, develop a business plan for long-term PPP Unit within the Caribbean Development Bank and examine the feasibility of creating a revolving project preparation fund for the Caribbean.⁷

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⁶ Ibid, page XI.

Furthermore, most countries do not have in place legal provisions for private participation in public sector projects and the limited size of most PPP projects in the region limits its attractiveness to international investors.\(^8\)

Notwithstanding the above, the use of PPPs has increased in the Caribbean and therefore, there is a higher need to address common issues in order to ensure the best possible outcomes of projects. The following are critical aspects related to PPPs that countries in the region need to address in order to create an enabling environment for PPPs:\(^9\)\(^10\)

- PPP policies and processes;
- Regulatory environment and institutional framework;
- Sectoral reforms conducive to attract private investors;
- Technical capacity within the government;
- Fiscal and accounting management structures;
- Access to long-term financing;\(^11\)

In terms of GDP, Jamaica ranks third in the region with a nominal GDP of US$15.3 billion, only behind the Dominican Republic and Trinidad & Tobago.\(^12\) According to the CDB, the country needs to invest US$3.2 billion in infrastructure between 2015 and 2025; which represents 0.5% of the country’s GDP.\(^13\) Priority sectors are transport, water, and sanitation. Nevertheless, investments are constrained by government budget restrictions.\(^14\)
Infrastructure Investment Need by Sector in Jamaica 2015 - 2025

<table>
<thead>
<tr>
<th>Type of Infrastructure</th>
<th>US$ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>1.1</td>
</tr>
<tr>
<td>Transport</td>
<td>1.2</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3.2</strong></td>
</tr>
</tbody>
</table>


Policy and Institutional Framework.

In 2012, Jamaica approved a PPP policy that established an institutional framework to guide the identification, development, evaluation, implementation and management of PPPs. The country has a set of rules in place for selecting, evaluating, and managing projects. For a project to move forward via PPP, the value-for-money analysis, bankability and fiscal assessments need to justify the proposed scheme. Projects to be considered for PPPs must have an associated investment higher than US$10 million, and a concession length of minimum 10 years. Projects in transport, energy, water and sanitation, health and education, and telecommunications are eligible for PPPs, while housing is excluded.\(^\text{15}\)

Regarding the institutional framework, the Cabinet of the Government of Jamaica is responsible for the strategic planning, prioritization, and approval of PPP projects, through the Public Investment Management Committee (PIMC). The PIMC assesses public investment projects and determines whether a project may be pursued as a PPP. The Cabinet also approves the final terms of PPP contracts and authorizes the modification of PPP policies. On the other hand, the PPP Unit of the Development Bank of Jamaica (DBJ) and the Ministry of Finance and Public Service (MOF) oversee their structuring and management.\(^\text{16}\) This institutional framework segregates the promotion function and the control function to prevent conflicts of interest.

The overall coordination of the PPP Program and management of PPP project development is under the responsibility of the PPP Unit in the Development Bank.


of Jamaica (DBJ). The Ministry of Finance is in charge of the fiscal management of PPPs and has specific responsibilities regarding the assessment of risk allocation in projects and potential fiscal impacts taking into account the country’s public debt policy. Since 2014, the Ministry fully discloses contingent liabilities derived from the PPPs for financial management and auditing. This institutional framework segregates the promotion function and the control function to prevent conflicts of interest.

In 2014, Jamaica adopted a revised fiscal rule which limits to 3 percent of GDP the total loan value of all new user-funded PPPs on a cumulative basis. For government-funded PPPs, the full construction cost of the project is recorded as a government liability within public debt (following the IPSAS 32 accounting standards) and is thus covered directly by the fiscal rule. Fully user-funded PPPs with only minimal fiscal risks are assessed independently by the Office of the Account General and can be exempted from the PPP ceiling.

**Operational experience.**

Jamaica has strong track record in the development and execution of PPPs relative to its Caribbean peers. According to the World Bank Private Participation in Infrastructure (PPI) Database, Jamaica has financially closed eight PPP projects between 2012 and 2018, including the Kingston container terminal project and the US$330 million Old Harbour combined cycle power station project. More recently, Jamaica has developed PPP projects such as the Solar Energy and Energy Efficiency in Schools project and the Norman Manley international airport project under a long-term concession agreements.

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With notable results, the 30-year concession agreement for Sangster Airport awarded in 2003 has led to major infrastructure expansions and improvements in the quality of service. Passenger traffic grew by about 25 percent by 2017, and total revenues more than quadrupled.

Notwithstanding, projects have faced challenges. In the road project Highway 2000, the private party faced difficulties in the financial closure of the project. As a result, the government assisted with the raising of the initial financing\(^{23}\). Also, the initial tender for the Norman Manley International Airport (NMIA) PPP received no bids in 2014. However, the improvement of the commercial terms of the agreement, amongst other, resulted in the granting of the PPP in 2018 was finally granted. The constant adjustment of the country’s regulatory framework, its institutions and the technical capabilities of the personnel in charge of PPP projects also favored this outcome.

**Support to PPPs and outcomes.**

The government supports PPPs as an instrument for development. This support is acknowledged in Jamaica’s long-term National Development Plan “Vision Jamaica 2030” In this document, the country recognizes the importance of using PPPs, in conjunction with the strengthening of alliances between national associations, the government, and other partners from the public and private sectors.\(^{24}\)

Jamaica’s sustained efforts to encourage private investment in infrastructure development have had positive results. In the 2019 Infrascope Report, Jamaica ranked 4th out of 21 countries in the enabling environment for carrying out projects via PPPs in Latin America and the Caribbean (LAC).\(^{25}\) This result reflects the country’s capabilities for developing and implementing effective PPP projects and its consistency, bearing in mind that the country also ranked 4th in the 2017 Infrascope Report.\(^{26}\)

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\(^{26}\) Ibid, page 7
Expansion of the Panama Canal and Jamaica’s logistics strategy.

The Panama Canal is one of the most crucial water ways in the Western Hemisphere\textsuperscript{27}, connecting the Atlantic and Pacific Oceans in the Panamanian isthmus through a stretch of 80km. The canal dramatically reduces the distances travelled by vessels wanting to cross to the Pacific or Atlantic oceans, and therefore has a high relevance for the maritime transport industry, world trade, and competitiveness of the region.\textsuperscript{25} It represents about 5% of the world seaborne trade, with about 14,000 vessels transiting every year. Its main routes connect the east and west U.S. coasts with the Far East, South, and Central America; it also connects east and west South American coasts.

From 2009 to 2016, the Panama Canal was expanded to three canal lanes, in order to allow the transit of post-Panamax cargo vessels, which have larger size, capacity, and draft than earlier ones. After the US$5.5 billion expansion project was completed, the traffic through the canal increased by 22\% (in tons) from 2016 to 2017.\textsuperscript{28}

In addition to the latter, the increase in trade between China and the western hemisphere created investment opportunities in ports and logistics facilities in the Caribbean.

As a natural logistics hub due to its privileged geographic location, Jamaica wanted to capitalize on these advantages. Therefore, in its National Development Plan 2030, it put forward the objective of developing develop world class infrastructure that contributes to the country’s competitiveness and transformation into a multimodal regional logistics hub (National Outcome #9).\textsuperscript{29}

Given the increasing market share of port traffic gained by Colon in Panama and Cartagena in Colombia, the Government of Jamaica formulated the “Global Logistics Hub Initiative” to attracts industries and maritime demand. The initiative created special economic zones on the Island to attract strategic industries.\textsuperscript{30}


Rationale for a PPP

Port PPPs.

The port sector is a common ground for PPPs. Under the "landlord model" of port management developed in the 1990’s, the port authority acts as the regulatory body, and provides basic infrastructure and the required terrains, while the private sector carries out port operations.

Since the 1990s, many ports implemented structural reforms to make use of this model, and currently the most important ports globally have private operators. In Latin America and the Caribbean, the private sector operates about 80% of the container terminals. The use of such schemes has increased the competitiveness of terminals and produced the following results between 2000 and 2013.\(^1\)

- Expansion of port infrastructure by 76 %;
- Increased productivity of port infrastructure, it more than doubled;
- Increased port capacity, from 4.4M TEU to 24.6M TEU, an expansion of 177 %;
- Improvement of the technological efficiency of ports;
- A decrease in operational costs. Resulting from increased technological efficiency;
- Reduction of labor disputes;
- Increased corporatization of port systems, and presence of international operators in container terminals. While in 2006 there were 35 terminals operated by international companies, by 2012 the number increased to 51;
- Mobilization of investors to modernize the existing infrastructure, larger companies are investing in more ports in the region given demand prospects;

Kingston Container Terminal

Kingston Container Terminal is one of Jamaica’s most valuable assets and one of the most important logistics hubs in the Caribbean. It is the largest port in terms of container traffic among the islands of the region, and third when considering continental ports. The port mobilized 1.8M TEUs just in 2018, of which 1.5M TEUs were transferred from one vessel to another until its final destination\textsuperscript{32}, using the 56 percent of planned capacity in phase one (3.2M TEUs)\textsuperscript{33}. The port ranked 8th out of 118 in Latin America and the Caribbean according to the ECLAC’s Port Ranking\textsuperscript{34}. Since the Terminal’s inception, the Port Authority of Jamaica had owned and operated the facilities investing around US$ 500 million in infrastructure. Nevertheless in 2014 it was estimated that additional investments of around US$ 690 million were needed to re-equip and expand its capacity. The PAJ selected a PPP model to carry out the project due to 4 main reasons:

1. The country had a qualified and experienced team for structuring and managing PPP projects and the port sector had been adopting this model globally and in LAC;

2. There was an increased interest from private investors in port projects in LAC, resulting from demand trends.

3. The country had relevant fiscal constraints to finance the project and no debt capacity.\textsuperscript{35} Additionally, the PAJ lacked financial guarantees to accredit the required investments because the Government of Jamaica was already a guarantor in previous projects, and established a policy to lower them in future financial schemes of infrastructure projects.\textsuperscript{36}

4. The PPP model implied greater benefits than traditional public procurement. As per the rules and regulations of Jamaica, projects pursued via PPPs must be justified by a value for money analysis.\textsuperscript{37}

\textsuperscript{34} Ibid. CEPAL, 2018.
\textsuperscript{36} Ibid, page 4
\textsuperscript{37} This case study did not have access to the value for money study.
The PPP Agreement of the Kingston Container Terminal

Port of Kingston, Jamaica.

In 2012 the PAJ started the preliminary structuring of the project for financing, expanding, operating and maintaining the Kingston Container Terminal. PriceWaterhouseCoopers performed as lead structuring advisor of the PAJ and manager of the bidding process.
After an informal process that sought expressions of interest, the Port Authority released a request for qualifications on April 3, 2013. The Port Authority sought global terminal operators and/or shipping lines to participate in the procurement process.

Following the receipt of responses to the request for qualifications, three firms were shortlisted and invited to participate in the request for proposals round. The Port Authority released the request for proposals on January 15, 2014. The consortium of Terminal Link and CMA CGM (Kingston Freeport Terminal Limited) was the only to tender an offer to the Port Authority for the Kingston Container Terminal concession.

The contract signature with Kingston Freeport Terminal Limited took place on April 7, 2015 and the agreement gave the private partner the right to commercially run the terminal starting July 1, 2016, when the works of construction and modernization started.

The contemplated investments under the agreement expanded the terminal’s capacity to accommodate the new mega cargo vessels therefore leveraging its proximity to the Panama Canal and other strategic commercial routes.

Before the PPP agreement, the port had the following infrastructure:

- 19 Gantry cranes to move containers from vessels to dock, including 4 super post-Panamax;
- 30 stevedoring chassis;
- 28-yard tractors;
- 30-yard trailers;
- 3 mobile cranes for rent;
- 24,000-HP tugboats;

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40 Kingston Freeport Terminal LTD, Port Development. http://www.kftl-jm.com/?page_id=2165
• 14 empty stackers;
• 73 straddle carriers;
• 24 trailer trains;
• 4 train tractors;
• 9 forklifts;
• 744 440/480-V outlets with standing-by for connecting refrigerated containers.

Components of the project.

The project is composed of 3 phases described below, of which the first two have a defined scope.42

1. Phase 1 (completed by late 2018, earlier than foreseen). Infrastructure and equipment budget: US$ 452 million. Includes:

• Capital dredging of the port’s navigation channel for 80 % post-Panamax vessels (14.2 meters);
• Expansion of the port’s turning circle;
• Strengthening of 1,200 meters of the walls of the existing quays;
• Optimization of the existing infrastructure and walls;
• New equipment:43
  • 18 ship-to shore gantry cranes;
  • 60 straddle carriers;

42 The Port Authority. 2015. “The concession agreement for the further development, operation, expansion and subsequent transfer of the KCT; Page 3. April 7.
- 1 6,000-HP tugboat;

2. Phase 2. To be planned by 2026 and initiated before 2028 conditional to market evolution. Infrastructure and equipment budget: US$ 250 million. Includes:

- Dredging at depths for 100 % post-Panamax (15.5 meters);
- Expansion of port’s turning circle;
- Strengthening of 800 meters of the walls of the existing quays.

3. Phase 3. Would start after 2031 subject to the market conditions and the agreement between the PAJ and the private partner. This phase would comprise the construction of a new 400-m deep water quay with a 15.5-m draft for post-Panamax ships, and 14 hectares for maneuverings and storage.  

**Term of the agreement.**

The PPP agreement was signed for a 30-year term. The property of the infrastructure and equipment under the PPP agreement will be transferred to the PAJ at the end of the contract.

**Port Operations.**  

In general terms, the port operations involve the storage and transfer of containers to and from the vessels. The private partner must inspect the containers, both physically and by electronic scanning. It is also compelled to carry out the typical auxiliary port operation activities, fuel supply, waste disposal from the terminal and vessels and maintenance dredging of docks (60-meters wide). The PAJ is responsible for the maintenance dredging of the port’s basin, turning circle, and the channel.

The PAJ is also responsible for the tax and customs activities in the port. In this regard, in 2017 it launched a project to manage and optimize the port and logistics business processes.

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Performance evaluation.

The private partner is required to deliver an annual performance report which serves to monitor the progress and performance of the project. The Auditor General of Jamaica expects that this report will have an impact on the Government’s ability to effectively monitor the performance of the project and other associated risks.47

Payments by the private partner.

The following table summarizes the payments that the private partner must make to the PAJ.

<table>
<thead>
<tr>
<th>Payment</th>
<th>Recurrence</th>
<th>Amount / Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial payment</td>
<td>6 monthly installments after signing the agreement</td>
<td>US$ 75 million Market value of the existing infrastructure</td>
</tr>
<tr>
<td>Fixed Fee</td>
<td>Quarterly</td>
<td>US$ 3.75 million Adjusted according to inflation</td>
</tr>
<tr>
<td>Variable Fee</td>
<td>Monthly</td>
<td>8% of the operating partner's gross income</td>
</tr>
</tbody>
</table>


Project and PPP framework milestones

The following timeline summarizes the project’s milestones and associated country measures:


Contract termination

Article 16 of the PPP agreement indicates that the PAJ must pay the private partner when contract termination arises from force majeure events, default by PAJ or expiration of contract term. The compensation will be equivalent to the aggregate net book value of all the improvements in infrastructure and equipment undertaken in the port.\textsuperscript{48}

Project financing.

The PPP agreement comprises the expansion, operation, maintenance and transferring of the Kingston Container Terminal. The private partner is fully responsible for financing the project, including the infrastructure and equipment required.

A group of financial institutions led by IDB granted financing to develop Phase 1. The total cost of this phase was estimated at US$ 452 million, including US$ 259 million for infrastructure and equipment. The financing by IDB to the private partner amounted to US$ 205 million with a tenor of up to 15 years. The private partner provided US$ 187 million of equity and internal funds, matching the remaining 41%.

Operating Partner’s Financing of Phase 1

<table>
<thead>
<tr>
<th>Granting Institution</th>
<th>Amount</th>
<th>Specifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>US$ 265 million, 59%</td>
<td></td>
</tr>
</tbody>
</table>


Up to now, no financing has been secured for phase 2.\textsuperscript{49}

\textsuperscript{48} IDB. Op cit, page 2.
\textsuperscript{49} Ibid. Page 17.
**Risk Matrix**

The following table summarizes the allocation of the most relevant risks of the project.

**Risk Matrix – PPP process of the of Kingston Container Terminal**

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Government (retained)</th>
<th>Private (transferred)</th>
<th>Shared</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Design and Construction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modifications to the original design</td>
<td>x</td>
<td></td>
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</tr>
<tr>
<td>Delays in authorizations and permits</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>Construction delays</td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td>Construction costs</td>
<td></td>
<td>x</td>
<td></td>
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<tr>
<td><strong>Operation and performance of the operating partner</strong></td>
<td></td>
<td></td>
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<tr>
<td>Operation and maintenance</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Performance reports</td>
<td></td>
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<tr>
<td><strong>Financial</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Financing</td>
<td>x</td>
<td></td>
<td></td>
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<tr>
<td>Exchange rate risk</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in law</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in supportive public policies</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Force majeure</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Rebalancing of the financial equilibrium</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Renegotiation</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Agreement termination</td>
<td></td>
<td></td>
<td>x</td>
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</tbody>
</table>


The Auditor General of Jamaica states that the associated risk is shared between the PAJ and the private partner, because the latter faces a penalization if reports are
not delivered in due time and form. If this happens, there is a chance for the PAJ to lose its ability to correctly monitor the general performance of the project and may encounter other risks.\textsuperscript{50}

Pertaining force majeure, this too is a shared risk since both parties can invoke a clause that considers such an event. If the event leads to the termination of the agreement, both parties have obligations to comply with. The invocation of this clause results in both parties waiving all obligations affected by the force majeure event until it is solved.\textsuperscript{51}

Pertaining the rebalancing of the financial equilibrium, the agreement establishes that the PAJ and the private partner can file requests to rebalance the financial equilibrium in case of force majeure, default, and expiration of contract term. Therefore, this risk is shared by both parties because they have the right to claim compensations to offset any losses incurred.\textsuperscript{52}

In this project, contract renegotiations involve modifications of the original clauses. The agreement outlines remedies to respond to controversies that may arise during its term, which include the modification of the existing fees, and, or extension of any applicable deadline for the private partner to meet its obligation. Therefore, both parties share the risk of renegotiation.\textsuperscript{53}

The risk of contract termination is also shared because the agreement establishes the penalties and payments that each party must pay if one of the following events occur:\textsuperscript{54}

- Expiration of contract term;
- Default;
- Force majeure;
- Failure related to closing and handover dates.

\textsuperscript{51} Ibid. Page 15.
\textsuperscript{52} Ibid. Page 16.
\textsuperscript{53} Ibid. Page 17.
\textsuperscript{54} Ibid, page 17.
**Stakeholder participation**

The following table summarizes public and private sector involvement in the investment and financing of the project:

<table>
<thead>
<tr>
<th>Participation of Those Involved</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public sector</strong></td>
</tr>
<tr>
<td>Investment</td>
</tr>
<tr>
<td>Financing of Phase 1</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<tr>
<td>Guarantees</td>
</tr>
</tbody>
</table>


**Challenges faced by the project**

The first challenge faced by the project was that after three firms were shortlisted for proposal request, only one tendered an offer to the PAJ. The negotiations with Kingston Freeport Terminal Limited were extensive and lasted nearly a year until the consortium was named the preferred bidder.55

Obtaining the financial closing for phase 1 of the project was also a complex endeavor. While the Concession Agreement called for a no-more-than nine month period for KFTL to secure the necessary initial financing and to reach financial close, this was ultimately achieved as of June 29, 2016.56 In addition to consolidating the financial package, intervening events such as a significant acquisition by CMA CGM of a competitor shipping line and the change of government in Jamaica caused some degree of uncertainty.57

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57 Ibid, page 66.
Once the operational handover took place, the operator faced time constraints to execute capital investments. This was adequately addressed and phase 1 was completed by March 2019, well before the time frame contemplated in the Agreement.

Despite the progress made, a current challenge faced by the projects pertain to the port expansions taking place in other Caribbean countries and in Central America, which imply a direct competition. Particularly, the Port of Freeport in the Bahamas has reduced Port of Kingston’s market share.

**Reactions from the society**

There is no evidence of relevant social movements against the project, nor available information to determine its degree of social acceptance. Regarding the reactions of port workers, the was a 24 hour strike in December 2018 at the port, as workers were protesting against the actions of management during wage negotiations. Also contractors complained about port conditions, affecting to move the containers. Regarding the maritime and port industry response to the project, according to press reports the project was received with high expectations, especially by local members. On the other hand, there is no evidence of rejection, although some sources claim that the expansions of the Caribbean ports, including Kingston, could result in overcapacity.

**Expected results**

The central result of the project is the increase in capacity and modernization of the Port of Kingston, which enables the facility to host larger ships, increase its competitiveness and benefit from the growing volume of trade due to the expansion of the Panama Canal. The project supports Jamaica’s efforts to position itself as regional logistics hub.

The project also contributes to increased private sector participation in the Jamaican economy and particularly in the infrastructure sector given the concession agreement with a private party and the infrastructure works entailed. Additionally, this PPP can provide lessons learned for future projects carried out under this scheme in the Caribbean region.

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Regarding transshipment activity, the port increased the cargo handled from 7.3 million metric tonnes in 2015 to 12.5 million in 2018. On January 2019, the Terminal reported its highest historical performance with an average crane productivity of 36 moves per hour and an average berth performance of 136 moves per hour while handling containers to and from the Post-Panamax vessel, Cosco Beijing.62

**Main Expected Results**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Phase 1</th>
<th>Phase 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Cargo Capacity</td>
<td>400,000 TEU (from 2.8M TEU to 3.2M TEU)</td>
<td>1.3M TEU (from 3.2 to 4.5 million)</td>
</tr>
<tr>
<td></td>
<td>+14 % of current capacity</td>
<td>+61 % of current capacity</td>
</tr>
</tbody>
</table>


**Lessons learned**

The following are the main lessons learned derived from the Kingston Container terminal PPP project:

**An adequate regulatory framework favors the development of PPPs.** Jamaica has clear rules and processes in place for the participation of the private sector in financing and developing infrastructure, this favors investors’ confidence and increases accountability.

**A robust institutional framework is key for ensuring the robustness of projects and processes along the PPP project cycle.** The different institutions involved in PPPs in Jamaica have clearly defined roles and competences. The government of Jamaica has a PPP unit within the DBJ in charge of the development and implementation of these projects. Also, the Ministry of Finance and the Public Service (MoFPS) supports transactions, by assessing fiscal risk and value for money. Both units have operational experience and their role was essential in the development of this project. Currently, Jamaica is recognized as one of the countries in LAC with the best institutional frameworks for PPPs.63

An experienced technical team is critical for the correct identification, structuring, tendering and implementation of PPP projects. The institutions involved in this PPP had experience and skills in key project areas – legal, finance, operations and engineering. Additionally, this team has previously been acknowledged for generating high-quality contracts, driving changes in the regulatory framework when required, and leading PPP processes with discipline. Moreover, there was a qualified team of professionals within the Port Authority who managed the PPP transaction. For future PPPs, the commercial terms of the agreement should be geared towards attracting greater competition in the bidding process.

Experienced advisors can positively impact the PPP process. The Kingston Container Terminal PPP had the support of PricewaterhouseCoopers for transaction structuring and tender. The results of this support were positive not only because of the qualifications and experience of the advisors but also because of the solid counterpart in the government working towards the success of the agreement.

Known and tested PPP models have a higher probability of success. The landlord model in the port sector has been tested and implemented worldwide in different contexts, providing a wide benchmark for the structuring of the Kingston Container Terminal PPP. A known and tested model in conjunction with a solid regulatory and institutional environment supported project structuring.

Bankable projects attract international investors and multilaterals have a role in mobilizing financing resources. IDB Invest played strategic role as the main financier, granting loans in the amount of US$ 205 million, equivalent to 45% of the investment required for implementing phase 1. The financial package by IDB Invest extended the tenor expected to be provided by commercial banks, providing the project with a more sustainable debt service load. Also, IDB invest mobilized financing from the private marketplace through the B loan program in the amount of US$111 million. The Kingston Container Terminal project is the largest infrastructure project supported by the IDB Group in Jamaica without a sovereign guarantee and was recognized as the port transaction of the year in North America by the IJGlobal journal in 2016.

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