

El Salvador: Rehabilitation of Acajutla Seaport

Ex-post evaluation

OECD sector	21040 / Water transport	
BMZ project ID	1) 1991 65 473 (investment measure) 2) 1992 70 273 (complementary measure)	
Project-executing agency	1 und 2) Comisión Ejecutiva Portuaria Autónoma (CEPA)	
Consultant	1 and 2) RRI / GOPA	
Year of ex-post evaluation	2005	
	Project appraisal (planned)	Ex-post evaluation (actual)
Start of implementation	1) 3rd quarter 1993 2) 3rd quarter 1993	1) 1st quarter 1995 2) 1st quarter 1997
Period of implementation	1) 2 years 2) 2 years	1) 8 years 2) 1.5 years
Start of operation	1) mid-1995 2) mid-1995	1) January 2003 2) 3rd quarter 1998
Total cost	1) EUR 15.75 million 2) EUR 1.18 million	1) EUR 16.83 million 2) EUR 1.06 million
Counterpart contribution	1) EUR 2.51 million 2) EUR 0.11 million	1) EUR 4.65 million 2) EUR 0.10 million
Financing, of which Financial Cooperation (FC) funds	1) EUR 13.24 million 2) EUR 1.07 million	1) EUR 12.18 million* 2) EUR 0.96 million**
Other institutions/donors involved	None	None
Performance rating	Rating 3	
• Significance / relevance	Rating 2	
• Effectiveness	Rating 3	
• Efficiency	Rating 3	

*Including EUR 1.26 million remaining from Commodity Aid IV. The FC loan was reduced by EUR 2.32 million and utilised for the programmes FISDL IV and Housing Reconstruction

** Balance of EUR 116,000 was used for the programmes FISDL IV and Housing Reconstruction.

Brief Description, Overall Objective and Project Objectives with Indicators

The objective of the project was to restore the berthing and transshipment capacities of the port of Acajutla and their efficient operation. It was intended to contribute this way to ensuring and facilitating waterfront transshipment in Acajutla (overall objective). The project predominantly comprised investments in the rehabilitation of the port infrastructure and the procurement of transshipment facilities and seaport equipment. It included a complementary measure designed to improve the technical services of the workshop and, in particular, to enhance the administrative-organisational efficiency.

The achievement of the project objectives was to be measured by the indicators of goods transshipment (bulk goods and general cargo) and reduced ship waiting times. The overall objective was considered to have been achieved when the project objective indicators were fulfilled. From today's perspective, suitable indicators of achievement of the overall objective would be the relative market position of the port of Acajutla in comparison with competing seaports and the development of its goods transshipment in comparison with the increase in the country's economic performance. For both indicators it would have to be demanded that the relation given at the time of project appraisal can be increased or at least maintained.

Project Design / Major Deviations from the original Project Planning and their main Causes

The project measures essentially comprised investments in the rehabilitation of port infrastructure (rehabilitation of the access to two of the three moles, corrosion protection measures) and the procurement of transshipment and port equipment (rehabilitation of storage facilities, transhipper for dry general goods and drainage system in the workshop area, provision of straddle carriers, tugmasters with chassis, grippers and fire fighting equipment). A complementary measure designed to improve the technical services of the workshop and the administrative and organisational aspects of port operation was implemented as well. The latter was already identified as a crucial bottleneck to efficient port operation at the time of project appraisal.

Considerable delays against the original implementation schedule occurred because of difficult decision-making processes and the need to repeat tenders for some goods and services. Besides, there were also changes against the original planning in the equipment to be supplied.

The design of the investment measures carried out can be rated appropriate in general and crucial to the continuation of port operation. The rehabilitation of the access to moles A and C as well as the corrosion protection were necessary to maintain the berthing capacities. The transhipper for general goods significantly increases the transshipment capacities and is still in use. The fire prevention system was crucial to the certification of the Acajutla seaport as a "safe port" in the year 2004. The drainage system in the workshop area permits the removal of used oil, making an important contribution to protecting the environment. In terms of costs these measures accounted for roughly two thirds of the total investment measures. However, not all measures are in line with current needs: The warehouses intended for bulk goods (nearly 30% of total costs) are not being used to capacity as the transshipment growth of the past years primarily took place in container transport (and customs procedures have also been sped up); they are now being let out for other uses. The tugmasters with chassis delivered towards the end of the project (a good 4% of total costs) are not being used because the transshipment is no longer being performed by the port authority but by small enterprises and CEPA does not offer competitive hire fees for this equipment. The measures generally increased the port transshipment and warehousing capacities and were decisive for the continuation of port operations with the current transshipment volume.

The complementary measure led to improvements in the technical services of the workshop, most of which could be implemented as planned, and efficiency improvements in organisational aspects as these had already been identified as a crucial bottleneck at the time of project appraisal. The proposals on "Restructuring and Modernisation" submitted to the management in 1998, however, mostly addressed aspects limited to improvements in internal procedures in the

existing port structure with its inefficient employment schemes. The efficiency improvement potential to be raised through these measures was low, however, and a political will to implement far-reaching structural reforms was not existent at the time. Measured against the requirements imposed on efficient port management the complementary measure was hence not successful. An efficient port operation became possible only after the port reform in 2001/2002, three years after completion of the measure.

Key Results of the Impact Analysis and Performance Rating

The labour market reforms necessary for efficient port operation were not put into place until a port reform was under way in early 2002, three years after completion of the complementary measure, by dissolving the collective wage agreement with the union of ship workers and replacing them by outsourcing transshipment and maintenance services to small enterprises under annual tenders. The port personnel was reduced from over 1000 permanently employed workers up to 2001 to around 150 from 2002. As a direct consequence, from 2004 to 2001 average ship waiting times could be reduced by 89% (from 17.3 to 1.9 hours), average port time by over 60% (from 74.3 to 28.8 hours) the cost of operation per quantity transhipped by 40% and tariffs in two steps by a total of 15%. The transshipment volume increased by nearly 30% in the same period while the container transshipment volume increased fivefold. Years of losses (USD 6.2 million in 2001) were transformed into profit (USD 5.1 million profit in 2004). The complementary measure only contributed indirectly to the reform of the seaport in 2001/2002 by highlighting the job market reforms as one of the key factors for efficient port operation. But the driving force behind the reform is most likely to have been the growing losses accumulated by the port from 1998-2001 and the growing urgency to take action.

The FC-financed infrastructure and equipment are now nearly fully in operation and are being maintained regularly and properly. Problems remain in the utilisation of warehouse capacity and the tugmasters. As the transshipment growth of the past years was primarily achieved with containers and storage times in port have shortened considerably as a result of simplified customs procedures, the former warehouses are no longer fully needed for storage of bulk goods. Two of the four warehouses have been let out in the meantime to better use available capacities. The six tug masters with chassis delivered for container transport towards the end of the project were not utilised because the inflexible tariff policy of CEPA does not permit leasing them out at competitive prices.

Measured by the indicators of goods transshipment and ship waiting times, the project objectives were achieved. The transshipment volume of 293,000 tonnes of general cargo (without containers) and around 1.2 million tonnes of bulk goods imported in 2000 was substantially greater than the target figures of 204,000 and 886,000, respectively, and could be increased further in the subsequent years. Only the container transshipment remained behind expectations until 2001 (109,000 tonnes against the target of 262,000 tonnes in the year 2000), but it was compensated by the remaining growth in cargo transshipment. After a port reform was implemented in early 2004 the cargo volume grew strongly, particularly containers (688,000 tonnes in 2004). Average ship waiting times were significantly below the target limit of 6.5 hours, at 5.1, 2.3 and 1.9 hours in the years 2002 to 2004. The overall objective of the project can be considered attained as well. The transshipment volume in Acajutla increased roughly at the same rate as in the competing ports during the project period so there should not have been any major change in its relative market position. Port transshipment rose at an annual rate of 7.1% and port earnings rose by 6.2% annually in the period between 1993 and 2004, a disproportionately higher rate than the economic growth of El Salvador (average growth in real terms of just under 2% annually since 1995). So it can be assumed that the port was able to maintain and even increase its importance for the Salvadorean economy.

At the time of project appraisal the project was expected to generate an internal rate of return of 3.45%. It was assumed that without the project the port would have been able to handle only around 25% of its previous transshipment volume. In a review of the original calculation based on

the real-term investments, earnings and costs we arrived at an internal rate of return of 7.6%. The economic analysis considers not only the internal rate of return but also the transport cost savings achieved through the operation of the port of Acajutla. This assumption presupposes that without the project a large portion of the Pacific maritime transport handled by the port of Acajutla would have been handled by the competing port of Quetzal in Guatemala, requiring surface transport by lorries. The overall economic rate of return of 41.8% is thus greater than the target expected at the time of project appraisal (around 25%). Other positive impacts of the project, for instance on economic activities in the immediate vicinity of the port (industrial development, employment, trade) are not considered in the profitability calculation.

We rate the developmental effectiveness of the project as follows:

- The project objectives regarding port operation and profitability have been achieved. The main the project measures - rehabilitation and improvement of waterfront facilities, warehouses and the transhipper for bulk goods - were necessary to enable port operation in the current volume; however, part of the equipment and infrastructure financed are not being sufficiently utilised (see above). The complementary measure was unsuitable for achieving the necessary profitability improvements. This did not occur until the port reform of 2001, which was, however, indirectly supported by the complementary measure. The risks to continued efficient utilisation of the FC-financed components appear to be rather low. Overall, the effectiveness the project can thus be rated sufficient (rating 3).
- The production efficiency of the port was reduced by the substantial delays resulting from difficult decision-making processes, the need to re-tender some items and cost overruns in some items against the original estimate, although the costs of the individual measures can be regarded as reasonable overall. However, given the good internal and the very good economic rate of return, the allocation efficiency must be rated positive. A reservation has to be made in that some of the investment and equipment financed under the project is not being sufficiently utilised and that the complementary measure for enhancing efficiency in the area of administration and organisation was altogether not successful. Overall, we rate the efficiency as still sufficient (rating 3).
- The assumption that maintaining the operation of the port of Acajutla would contribute to the country's economic growth given its importance for the import of goods (relevance) was generally plausible. The significance of the project is shown by the fact that the port was able to maintain its competitive position against other ports and that it was able to grow in importance for domestic transports. Without the reforms implemented by the Salvadorean government in the area of employment regulations, which were influenced only indirectly by FC, the developmental impacts of the project would certainly have been much lower. We rate the significance and relevance of the project as generally satisfactory (rating 2).

On the basis of our evaluation of the key criteria mentioned above we rate the developmental effectiveness of the project as sufficient overall (rating 3).

The project did not aim to specifically improve the situation of women in El Salvador and is not likely to have contributed to this. Nor was there a stated objective to improve governance. The project did not aim to improve the environmental situation, although positive environmental impacts are being achieved because the drainage system in the workshop area reduces water contamination from used oil and port operation makes heavy traffic between Guatemala and El Salvador superfluous, leading to fuel savings, lower exhausts and CO2 emissions, as maritime transport is clearly easier on the environment than road transport. The project did not aim to directly reduce poverty - such effects are not discernible either - but to contribute to economic growth in El Salvador.

Conclusions and Recommendations

The project illustrates how important structural changes are for a project to be successful, particularly in public executing agencies which are often exposed to considerable political influence on tariff levels, personnel and management (with the negative consequences this has for their efficiency), and what role the private sector can play here. The 2001/2002 seaport reform enabled transshipment and maintenance services to be outsourced to small private enterprises, leading to more competition and significantly higher efficiency in port operation. Without this reform the project would probably have failed because the high losses would ultimately have prevented sustainable port operation. In cases where public executing agencies in the transport infrastructure area are having problems FC projects should not be implemented unless the government is prepared to introduce the necessary structural reforms. In order to achieve the necessary close dovetailing between FC measures and the necessary structural reforms a phased implementation should be preferred, together with the demand for corresponding reforms (particularly when the project comprises several self-contained modules that can be put in place subsequently). Execution of subsequent phases should always be made conditional on satisfactory implementation of the reform steps demanded in the preceding phase.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental effectiveness:
Rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of the "developmental effectiveness" of a project and its classification during the ex-post evaluation into one of the various levels of success described in more detail below concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient significant **developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?
- To the extent that undesired (**side**) **effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms, or to carry on with the project activities on their own and generate positive results after the financial, organisational and/or technical support has come to an end.