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PRIVATISING RAILWAYS IN AFRICA

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I. INTRODUCTION

1. In most African countries, railways have existed for at least one century. The basic aim of setting up railways in Africa was to facilitate colonial penetration and to haul products from the hinterland to the sea coast. Today, the environment of monopoly that railways enjoyed since that time and afterwards, has changed. With the achievement of independence by African countries, the cause of history changed and railway networks were placed under State control. For several years, investment on most networks has not kept pace with investments in other modes of transport, except for a few countries which have placed emphasis on railway development. As a result, real transport performance has been eroding fast and reached a situation where services have deteriorated. While the cost of basic investment in rail transport is very high compared to other modes, in the long run, railways provide the most economical means of transport. During the colonial period, when most railways were built, no private concern, had there been any, had the resources to invest in this transport mode so the individual States monopolised rail transport operations.

II. BACKGROUND

2. Until very recently virtually all transport sector activities were managed by public concerns under State control. State-owned railways were built largely in the early part of this century for purposes of penetration and conquest by the powers that ruled the African countries. The management of railways is therefore related to the colonial past. The situation continued even after 1957 to 1962, African countries had achieved independence.

3. The newly independent African States inherited the railway networks built for the purpose of transporting primary commodities to the points at which they were exported.

From year to year, such commodities became scarce at the same time as the rail transport

facilities became outmoded and could no longer be maintained for lack of adequate resources.

4. What is more, since the 1980s, African countries have been facing serious economic crises which have compelled most of them to undertake policy reforms.

5. In such a context, for lack of financial resources the national budget planning of the even if this was done, could no longer be implemented in a manner timely enough to meet the needs budget spending.

6. To gain a better understanding of the reasons for this steady decline, a careful look must be taken at the history of rail transport in order to see how African countries, mostly south of the Sahara, have ended up where they are.

III. HISTORICAL ANALYSIS OF THE RAIL TRANSPORT SITUATION IN AFRICA

7. The current analysis would be confined to railways and rail transport as managed by Sub-Saharan African States.

8. Following the accession to independence of most African countries, rail transport continued to be managed by the State. For about ten years, the management approach inherited from the pre-independence era continued to prevail with the result that the railway network were able to maintain the quality of their services and to carry out infrastructural maintenance. Gradually, however, the management rules were eroded as the States interfered

to the extent where the specific rigour and professional authority of the railway networks gave way to other imperatives.

9. With the decline (if not actual deterioration of service quality), the situation of railway networks has become a cause for concern at every level of the railway management authorities in Africa.

10. With the situation then prevailing and the competition coming from other transport modes, it became necessary to look for the underlying causes of the decline and to propose measures that should be taken to rehabilitate this transport mode which has operated for more than one hundred years in some countries of Africa.

11. Accordingly, to take into account all the factors that can help to reverse the current deterioration, it would be necessary, as mentioned earlier, to conduct a historical analysis with a view to gaining a better understanding and securing a better focus on the causes underlying the decline of railway services in Africa. The reference period of the early 1960s will provide a comprehensive assessment of the positive or negative pattern of rail transport growth over the past 35 years.

12. While in the developed countries, this transport mode is arousing increasing interest and mobilizing people in a vast programme of development and modernization to meet user requirements, African railway networks have fallen and continue to fall behind in their development. Furthermore, they face many difficulties in adapting to the changes thrust upon them by competition. To survive in such an environment, every effort must be made by the railway authorities (with the help of their development partners and donors) to concentrate on

the formulation and implementation of action programmes for railway network maintenance and service improvement and every constraint removed in order to prevent some networks from going under.

13. Taking into account the economic difficulties, the paucity of available resources and the changes happening all over the continent, there is no doubt that matters could not have been different over the past three decades.

14. To cope with the situation, appropriate measures should be taken to reverse the deteriorating trend and to restore the conditions for reliable operation of this long-distance and mass transport mode. The action to be taken to improve services, meet user requirement and create any enabling environment for the development of inter-State traffic should underpin the preparation and implementation of programmes for the rehabilitation and renewal of railway networks, the strengthening and modernisation of their service capacity and everything else which makes for their proper operation.

15. Since such measures would require a high level of investment costs which African States cannot afford, given the fragile state of their treasuries and other management requirements with which they have to cope, most African States have resorted to other measures which include private sector intervention. Generally, the sub-contracting of railway operation, privatisation, leasing and other arrangements provide alternatives which no longer have direct implications for the national budget.

16. Privatisation as a means of restoring railway services has become one option that most of the countries having difficulties are taking. Private sector intervention in transport activity

been reflected in several options which include privatising in full or in part, leasing or sub-contracting certain activities .

17. It may be wondered how, in the final analysis, such options can provide alternatives to the management crisis. If the description of the network situation in the early 1960s, as compared to the current situation makes it possible to map out how the decline occurred, it will then become possible to look at management methods that can enable rail transport facilities to be restored in such a way as would help to improve transport in Africa without serious implications for a country's financial liquidity.

1. Situation of Sub-Saharan Railways in the early 1960s

18. During this period, the situation could be described as follows :

- a) the train provided a reliable, safe and comfortable means of transport that users appreciated ;
- b) the trains ran on time and the user could count on leaving on the date and time scheduled and arriving at destination without too much delay or trouble ;
- c) the railway track and facilities as well as the rolling stock were operated under railway regulations which prescribed maintenance and repair schedules which were observed without fail so that incidents which disturbed railway traffic were reduced to the minimum ;
- d) the rules and the established hierarchy were scrupulously respected and no staff was assigned a post without being trained and without having shown an aptitude for the duties to be performed ;

- e) staff promotion from one level to another was subject to examination to determine the ability of staff to meet the requirements of the post ;the staff member had to be trained in the content of the higher level position and each agent, at each level, had to be prepared to exercise the functions of the post and to assume full responsibility for any shortcoming.In this way, productivity was sustained ; and
- f) the human and material resources placed at the disposal of railway management officials and the latitude given them to accomplish their assignments compelled each staff member to produce results and to assume the responsibility for service delivery.

2. Rail transport operation over the past two decades

19. By the beginning of this era, some changes were being introduced in the structures of many railway enterprises. These had to do in particular with management principles and rules ; furthermore, the concept of specialisation was watered down to the point that it became synonymous with public service operations under State control. Very early, the staff began to feel demobilized because they could no longer identify with the national interest. The result was the disorganisation of the rail network structure, which, in order to maintain stability, should operate on certain basic principles. From this observation , it can be seen that the specific nature of the rail transport industry which is a complex enterprise and highly labour intensive, had not been sufficiently taken into account.

20. During all these times, productivity continued to fall and, as a result, railway services deteriorated. The networks were faced all this time with serious human, material and financial problems which made them difficult to maintain and to check on the infrastructure and rolling stock or to pursue an appropriate rail transport policy which would address the requirements of competition.

21. To this situation, can be traced the gaps and deficiencies that now characterize sub-Saharan railway transport enterprises. While these gaps and deficiencies may vary from one country to another they can be summarized as follows :

- a) Insufficient resource planning and aging of rolling stock (locomotive, traction, equipment and repair tools) ;
- b) the poor state of railway tracks, telecommunications and signalling facilities and the aging of railway traffic control centers which created major distortions of train schedules ;
- c) poor availability of rolling stock mainly because the scheduled maintenance and repair programmes are not conducted in time and spare parts are scarce ;
- d) lack of passenger safety and confort to which can be added the relatively slow pace at which trains move and the various types of trouble coming from non-physical barriers imposed at border crossings ;
- e) declining professionalism and widespread lack of interest by staff in carrying out rail transport operation tasks ;
- f) inadequate training for the staff taking over, decline in the degree of competence of railway workers who are the majority of staff employed in the railways: Poor supervision, command and control structures.

22. It can be seen from the foregoing that the deterioration in African railway services is due, quite apart from the factors mentioned earlier, to the paucity, if not actual lack, of financial resources that the networks require to operate.

23. In such a context, given the financial difficulties that each of the States are facing, no country is allocating an investment budget for the operation of State enterprises.

24. As the situation emerged, the railway networks were compelled to count on the resources generated by traffic to operate their units. It was virtually impossible for them to meet the financial needs of the enterprise since the traffic they handled was constantly declining in most of the countries concerned. As was to be noticed, this decline is generally due to the fact that the railways can no longer provide users with the number of rolling stock needed for transporting passengers and goods to their destination within reasonable time and in safety. The age and shortage of equipment coupled with the poor state of railway tracks and operating facilities are among the serious obstacles to the rational management of railways.

25. To this must be added the imbalances caused by the number of staff which, in a large number of cases, has more than doubled, making it difficult to manage the human resources when traffic has been declining and the rail transport facility needs to be operated in competition with other transport modes.

26. From the reference made earlier to the situation in 1960 it is clear to all those who know the history of railways both during and after the period that one must conduct a historical analysis in order to see how the quality of service has fared over time. Everyone

will agree that service quality has declined despite the possibility that some networks can equip themselves with modern rolling stock and overhaul the railway tracks and their operating facilities. The causes such deterioration are many and several of them have been identified in the preceding paragraphs.

27. At this time of difficult management, it is important to stress for the reasons mentioned earlier, those problems that the technical services are having to deliver the required transport equipment for commercial services. Because commercial service requirements are not met, the financial position of the networks cannot be improved. Obviously, the trains will have to run in order to generate revenue and proper organisation in this particular area means everything for the railway business.

28. Since the inadequacy of financial resources has become a major constraint, everything feasible should be done to reorganize with what is available, rethink the methods and promote new initiatives that will help to restore all the principles that have been tested by time in the railway network structures both with regard to the railway operation itself and with regard to the human and material resources involved.

29. To cope with difficulties of this magnitude and given the paucity of resources to meet the level of investment that the survival of railways will require, State owned the railways have been compelled to opt for alternatives which today, depending on the specific nature of each railway network, mean privatisation, leasing or sub-contracting of railway operation activities.

30. Like many developing countries in the world, the African State enterprises can no longer count on the support and subsidies that they enjoyed in the past for their operation.

This is results from a combination of several domestic and external factors. One of these factors has to do with the financial constraints resulting from the structural reform undertaken in a number of African countries. Most governments are now allocating increasingly more resources to social development programmes in health, education and food security under which the private sector is encouraged to participate in those other branches of economic activity that it finds attractive. These branches include the sector of physical infrastructure, more especially, certain aspects of transport and telecommunications.

31. Another major change is emerging from the increasing globalisation of the world economy which is promoting the free flow of all production factors and trade. As a result, to become competitive, every country is compelled to become a player on the global market place. Efficient transport facilities are of capital importance and are strategic factors that enable countries to become competitive.

32. Then again, given the need for speedy development of the transport sector in order to withstand global competition, the developing countries (of Africa included) must exploit every available resource and encourage private investment. Once again, for the rail transport sector, this calls for the institution of appropriate regulatory mechanisms.

IV. WAYS OF ELICITING PRIVATE SECTOR PARTICIPATION

33. There are various ways of doing this :

a) with regard to infrastructural facilities, there can be four ways of participation:

- i) sub-contracting construction work without making the contractor directly responsible for management ; ii) management contracts under which the State owns the railway but the management is entrusted to a private concern ; iii) the ceding or transfer of controlling shares to the private sector for a fixed period ; and finally iv) privatisation involving the total transfer of property, management and legal rights to a private operator .

b) with regard to services, there are two ways, namely :

- i) competition on the market by several operators or transport modes ;
- ii) competition for market by systems, routes, services and functions

34. From the foregoing, it becomes important, before any decision is made concerning private management, to recall here for purposes of clarification, the main lines of similarity and dissimilarity between privatisation and leasing. The statement of Marcel Sarmet of Coopers and Lybrand Consultants during the seminar on the leasing of African railways organised by the World Bank in Abidjan on 13 and 14 October 1997 describes those similarities and differences as follows :

1. Railway privatisation/leasing

- ◆ Privatisation means the sale in full or in part of a company whose buyer assumes all its rights and obligations including commitments to current and retired employees, to suppliers within the context of long term contracts, to the State in terms of taxes and debts payable and any public service obligations of the privatised company. In principle, privatisation is definitive except where by a cumbersome and exceptional procedure, the State nationalises the company again. In that case, the value of the company shares have to be assessed by various methods and a fixed price paid which may vary from the assessed value since it is determined by invitations to bid and often involves a discount relative to the net assets of the company.
- ◆ Leasing means entrusting for a limited period, which may be renewed, the assets of a State company to be managed on a private basis, maintained, renewed and given back in good repair to the lessor at the end of the lease period. In this case, the company need not be assessed since it is not being bought, nor are its rights and obligations being transferred. In contrast, the lessee must pay a annual fee during the period of the lease. That fee will depend on business turnover and future performance and is also determined by an invitation to bid when the lease contract is being awarded to applicants ;
- ◆ Leasing therefore means a temporary privatisation of the management of a company without the State losing ownership of the assets leased and without it automatically and immediately renouncing some of the public service constraints which may continue to be imposed on the company.
- ◆ for the State, this procedure raises less policy issues than outright privatisation and enables it to divest itself financially of some activities requiring heavy investment, without however, losing completely its control for achieving certain public objectives. On the other hand, the State must still honor its debts and other commitments entered into

prior to the leasing arrangement since the company employees are still public servants whether still working or retired. The State must make it a point, if necessary, to liquidate the public company and make over its assets and activities.

35. It is also clear that since the objective of leasing is to privatise management, the State may no longer intervene in the management of the leased company as it did before and must confine its role to ensuring that the lease agreement and any commitments such as public service constraints are honoured.

2. Sub-contracting

- ◆ To be viable, the concept of sub-contracting presupposes at least the existence of small scale local manufacturing industries and enterprises in the country. Access to the services of such industries is one precondition for the private sector to profitably engage in the activities of rail transport operation and to provide services at reduced cost. This type of arrangement lessens the costs of railway administration .
- ◆ Some railway networks are already sub-contracting most of their activities that are not purely technical. Accordingly, some major track works and many maintenance activities are increasingly being entrusted to private enterprises. In this way, the railway authority could downsize its staff in order to achieve numbers compatible with competitive operating requirements.
- ◆ With regard to the award of work contracts to private enterprises, it has been noted that for in the privatisation exercise, it is most often foreign companies which come to acquire there shares. This is because local small and medium-sized

enterprises are still not sufficiently developed to the point where a viable local private sector can emerge. It is also because local people have few financial resources. In this respect, railway companies must issue shares in order to enhance the capacity of local entrepreneurs.

V. SUMMARY AND RECOMMENDATIONS

36. Private sector participation in national economic development is generally motivated by the need to improve efficiency. The recent experiences in many developing countries show that Governments can raise the level of revenue they so much need by ceding to the private sector those enterprises managed by the State. By granting licences and concessions to private operators, the State can reduce spending on those enterprises which do not perform and channel its scarce resources into other priority areas. One major argument in support of economic reform is that such arrangements help to improve efficiency and increase private sector participation in national development.

37. The experience of those countries that have introduced reforms and implemented economic liberalisation shows that this arrangement has promoted access to capital and private investment. Such an enabling environment has created more openness and provided some guarantee to foreign concerns which want to invest in Africa. It can be inferred that properly-formulated and judiciously applied institutional reforms can become major assets for the development of any sector.

38. In many African countries, private sector participation is proving worthwhile even though such participation has not yielded all the returns that can be expected from opening up

to market forces. In this new development approach, the transport sector , most particularly the rail transport sub-sector, has yet to be adequately taken into account.

39. Private participation in the transport sector in general and in the rail transport subsector in particular, is a relatively new deal in Africa because the entire sector was considered strategic and therefore in need of protection. To promote such participation, not only would a change need to occur in the development paradigm but also, institutions would need to be transformed and new structures put in place to create harmonious relations among the various players (Governments as policy makers, public and private operators as service providers and the general public as consumers or users). New legislation will have to be enacted to protect the interests of the various parties and new policy directives developed to guide sectoral development at the same time as a new legal and regulatory environment is instituted to implement, under the best possible conditions, the various privatisation arrangements in the rail transport sector.

VI. LESSONS AND CONCLUSION

40. In the railways sub-sector, the initial investment required is very high and substantial financial resources that individual Africans cannot afford are needed. To enable them to participate in such investment arrangements and avoid the domination of foreign capital, efforts would have to be made to raise the resource level of local enterprises in order to enhance their capacity.

41. Those countries which have the financial, material and human resources required, can restore railway management performance without resorting to leasing or even privatisation. This would however require far reaching measures in all sectors of activity and substantial

financing. Given the precarious and unstable environment in which some African railways are managed and operated, they would have to be privatised or leased. Considering all the difficulties faced by certain African railway networks, it has become highly urgent for them to opt for privatisation arrangements which may take several forms, namely: full or partial subcontracting of network operation activities, leasing or total privatisation. In the circumstances, arrangements should be made to ensure that the selected option meets the specific needs of the railway network concerned and addresses the particular difficulties it is facing. The choice opted for should also take the economic outlook of the particular country into account.

42. To conclude, even though privatisation may not have all the answers, it provides an option for countries experiencing difficulties and, in the medium term, offers them an opportunity to rethink their development strategy on the basis of the positive performance achieved.

43. It is therefore up to each country and each railway network to make its decision on the basis of its own economic development while drawing lessons from the experiences of those African and non-African countries which have already embarked on privatisation.