

# RAILWAYS IN AFRICA



**RAILWAY CONCESSIONS IN SUB - SAHARAN AFRICA :  
OPINION OF A CONCESSIONAIRE  
ON TRANSACTION DESIGN**



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MARCH 2005**

# **BOLLORE IS OPERATING 3 RAILWAYS NETWORKS AS A CONCESSIONAIRE :**

**SITARAIL** (Ivory Coast - Burkina Faso) : since 1995

**CAMRAIL** (Cameroon) : since 1999

**MADARAIL** (Madagascar) : since 2003

# Heavy operations, generally considered as a symbol by the states and the local public opinion

	<b>Turnover</b> <i>USD Millions</i>	<b>Tons</b> <i>Thousands</i>	<b>Passengers</b> <i>Thousands</i>	<b>Staff</b>	<b>Investment plan</b> <i>USD Millions</i>
<b>Sitarail</b> (before the IC crisis)	<b>50</b>	<b>1.100</b>	<b>400</b>	<b>1.700</b>	<b>100</b>
<b>Camrail</b>	<b>80</b>	<b>1.900</b>	<b>1.100</b>	<b>2.500</b>	<b>150</b>
<b>Madarail</b>	<b>11</b>	<b>300</b>	<b>0</b>	<b>900</b>	<b>47</b>

# **I - RAILWAYS IN AFRICA AND PRIVATE SECTOR**

## **A- Railways are essential means for African countries :**

- ❖ To stimulate trade and to contribute to economic growth.
- ❖ To compensate the weakness of road networks.
- ❖ To increase regional flows, mainly from and to landlocked countries.
- ❖ To improve security.
- ❖ To protect environment and to fight against pollution.

**B- The Private sector seems to be most efficient to operate African railways :**

- ❖ **Railways are facing a poor situation when managed by public sector.**
- ❖ **Public railways companies are in most cases weakened by political interference or by their use as cash providers outside the sector.**

❖ Positive results so far :

	<b>Traffic volume increase</b> (since the beginning)	<b>Investments achieved</b> (since the beginning) <i>USD Millions</i>	<b>Net results</b> average past years <i>USD Millions</i>	<b>Financial Revenues paid to the States</b> since the beginning <i>USD Millions</i>
<b>Sitarail</b> (before the IC crisis)	<b>+ 300 %</b>	<b>100</b>	<b>5</b>	<b>10</b>
<b>Camrail</b>	<b>+ 70 %</b>	<b>120</b>	<b>3,5</b>	<b>44</b>

- ❖ Improvement of service quality.
- ❖ Higher employee productivity.
- ❖ Modernization of infrastructure (rolling stock).
- ❖ Increase of market shares.

## **II - CURRENT DIFFICULTIES OF PRIVATIZED RAILWAYS**

- ❖ **Despite obvious positive results**
- ❖ **Financial difficulties remain**
- ❖ **Due to the gap between cash flow capacity and requested investments**

## A- Financial problems remain

The free cash flow is insufficient to cover both :

- ➔ the debt liability incurred by the rehabilitation plan
- ➔ the current investments.

<i>USD Millions</i>	<b>Current yearly cash flow (average)</b>	<b>Current Investments (average)</b>	<b>Debt reimbursement (average)</b>	<b>Yearly Shortage of cash</b>
<b>Sitarail</b> (before the IC crisis)	<b>5,4</b>	<b>4,4</b>	<b>1,9</b>	<b>- 0,9</b>
<b>Camrail</b>	<b>19,3</b>	<b>11,5</b>	<b>9,3</b>	<b>- 1,5</b>
<b>Madarail</b>	<b>2,3</b>	<b>2,1</b>	<b>1</b>	<b>- 0,8</b>

**No dividends are paid to shareholders.**

**B- Due to the tender conditions, the financial structure of concessions is unbalanced :**

- ❖ **The concessionaire has to bear the rehabilitation of both the rolling stock and the infrastructure.**
  
- ❖ **Some Governments require the concessionaire to purchase the rolling stock from the parastatal Company.**
  - ➔ **unsustainable liability for the concession.**
  
- ❖ **High royalties required by the State are not linked to the cash flow of the Company.**

## **C- Other problems weakening the financial structure of concessions :**

- ❖ **Road competition is very tough and subsidized.**
- ❖ **Railways have to adapt their tariffs to the road rates.**
- ❖ **Cost of rehabilitation and track maintenance sometimes exceeds the original evaluation.**
- ❖ **Governments don't respect their financial commitments.**
- ❖ **Political stability remains a serious problem.**
- ❖ **Currency devaluation is a big risk for concessions.**

### **III - ADJUSTMENTS**

#### **Some adjustments presently discussed :**

- ➔ To improve existing concessions**
- ➔ To define new conditions for future concessionning.**
  
- ❖ Costs of infrastructure rehabilitation plan are borne by States instead of concessionaires.**
- ❖ States remain the owners of rolling stock (not sold to concessionaires).**
- ❖ Royalties linked to the cash flow capacity of the concessionaire Company.**
- ❖ Partial Risk Guarantee delivered by International Institutions to cover any breach of government commitments.**
- ❖ Road competition regulation.**

## CONCLUSIONS

- ❖ Concessioning of African Railways contribute to economic growth, reduction of poverty and efficiency.
- ❖ To secure a long-term success, and to attract private operators and investors :
  - ➡ have long-term views in railways,
  - ➡ not only consider them as a short term cash-flow source.
- ❖ From the Private Sector point of view, these concessions must remain a profitable business, considering the commitments required from the concessionaire.
- ❖ The restoration of the economic balance of these exemplary Public/Private partnerships ensures the Private Sector long term presence in these concessions.