

# Infrastructure Notes



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## The Abidjan-Ouagadougou Railway Concession

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*Since the 1980s, most of Sub-Saharan African railways have been experiencing a severe crisis: declining traffic and revenue, lack of market orientation and poor service, continued operation of high-loss making passenger services, poor maintenance, gross overstaffing, lack of technical and financial discipline and heavy financial losses. Attempts to "restructure" railways as public entities have generally failed. Involvement of the private sector in railway operations under a concession arrangement now appears as a promising tool for transforming railways into business-oriented enterprises. The concession technique, successfully applied in Latin America, was used for the first time in Sub-Saharan Africa in Côte d'Ivoire and Burkina who jointly concessioned the Abidjan-Ouagadougou railway to a private operator in December 1994.*

### BACKGROUND

The Abidjan-Ouagadougou railway is a 1,260 km single track metric line constructed between 1905 and 1954 and connecting the port of Abidjan in Côte d'Ivoire with Ouagadougou, the capital of Burkina. Once enjoying a predominant position for the transport of freight and passengers in the corridor it serves, the railway now faces strong competition from road transport, as the road network in the region has improved and the port of Lomé (Togo) has emerged as a competitor to Abidjan for Burkina traffic. The main economic role of the railway at present is international freight traffic to and from Burkina (petroleum products, containers, fertilizers, grain, clinker and cement, cotton); the railway also plays a significant role in domestic transport of petroleum products in Côte d'Ivoire and in long-distance international passenger services.

[See Map](#)

From 1960 through 1989, the Abidjan-Ouagadougou railway was managed and operated by a bi-national public enterprise, the *Régie des chemins de fer Abidjan-Niger* (RAN), jointly owned by Côte d'Ivoire and Burkina (then Upper Volta). RAN was operated successfully and was financially viable until the mid 1970s. From the late seventies, operational and financial performance declined, due to inappropriate emphasis on the development of passenger traffic, over-investment, lax management, overstaffing and increasing road competition. In the 1980s, RAN was facing critical financial difficulties. In 1989, political reasons led to the split of RAN into two separate State-owned companies, the *Société ivoirienne des chemins de fer* (SICF) and the *Société des chemins de fer du Burkina* (SCFB). This separation further exacerbated the inefficiencies in the provision of rail services and led to more shifts of long-distance traffic to road transport. The financial situation of SICF and SCFB deteriorated rapidly.

In July 1992, the Governments of Côte d'Ivoire and Burkina decided to reunify and privatize railway operations under a concession scheme. The Bank and other donors established a dialogue with the two Governments on the design and the conduct of the concessioning process. Following a call for bids, two offers were received, of which

only one was judged responsive. The concession was awarded to the SITARAIL consortium in March 1993. Subsequently, long negotiations were necessary to agree on the concession agreement, which was signed in December 1994 and became effective in August 1995.

## **PARTNERS IN THE CONCESSION**

The railway concession has been jointly awarded by the Governments of Côte d'Ivoire and Burkina to SITARAIL, a joint-stock company incorporated in Côte d'Ivoire. A strategic investor, SOFIB-controlled by SAGA and SDV, the two main freight-forwarders active in the region, in association with an Ivorian investment group (SICC), Maersk (an international shipping line), railway engineering consultants SOFRERAIL and TRANSURB-CONSULT-holds 51% of SITARAIL's equity. Other SITARAIL shareholders are the two States of Côte d'Ivoire and Burkina (15% each) (partly through public corporations) and SITARAIL staff (3%). 16% of the shares, presently carried by SOFIB, are due to be sold to local private investors on the Abidjan Stock Exchange.

[See Structure](#)

Two State-owned "railway landlord corporations," the *Société ivoirienne de patrimoine ferroviaire* (SIPF) and the *Société de gestion du patrimoine ferroviaire du Burkina* (SOPAFER-B) have been created. They mainly administer railway infrastructure, on behalf of the States who retain their property. They also hold full ownership of railway equipment (locomotives, wagons, coaches, etc.) which they lease to SITARAIL. The former railway companies SICF and SCFB have been liquidated.

## **MAIN CHARACTERISTICS OF THE CONCESSION AGREEMENT**

### *Scope of the concession and regulatory framework of railway activity*

SITARAIL is technically and financially responsible for (a) the operation of freight and passenger services, including all equipment maintenance; (b) the maintenance of rail infrastructure and, in part, the renewal and adaptation of infrastructure; and (c) the current management of the real estate belonging to the railway domain.

While rail transport is still qualified in the concession agreement as a "public service activity," the concession agreement makes a clear distinction between commercial services and services operated under a Public Service Obligation (PSO) scheme.

For commercial freight and passenger services, SITARAIL enjoys complete freedom to set service configuration and tariffs, in reference to profitability criteria set by SITARAIL; the concessionaire is simply required to keep the Governments informed of the criteria used for the selection of services operated commercially. Tariffs freely set and revised by SITARAIL are applicable one month after their communication, for information, to the Governments, and fifteen days after they are publicized. Special contract rates may be negotiated with shippers; these rates are not publicized.

Services operated under a specific PSO scheme can be run at the request of one or both national Government, or of local Governments, under special contracts to be signed between the authority requesting the service and SITARAIL. Contracts have to specify the characteristics of the service and the modalities of the financial compensation to be paid to SITARAIL in order to cover costs attributable to the service and contribute to common costs. Presently, no service is operated under a PSO scheme.

The concession agreement reserves the right for the Governments to grant access to rail infrastructure by "third party" operators after a seven-year exclusivity period. Third-party operators would then pay an infrastructure access fee, to be negotiated between SITARAIL and the operator (or to be decided through arbitration, if the parties cannot agree on the fee).

The concessionaire is subject to the tax regime applicable to private enterprises. However, for petroleum products used in locomotives, SITARAIL is exempt from the fraction of the petroleum taxes levied by the Governments for road user charges.

### ***Duration of the concession***

The concession is a "rolling concession," with an initial duration of 15 years. At the end of the first five-year period, and in five-year intervals thereafter, the concession can be extended by mutual agreement for additional five year periods, thus preserving the 15-year concession horizon over time.

### ***Concession fee***

SITARAIL pays to the rail landlord corporations (representing the Governments) a concession fee composed of three parts: (a) a "usage fee"; (b) the rental fee for rail equipment leased by the landlord corporations to SITARAIL; and (c) the debt service on credits and loans subscribed by the States or the landlord corporations for rehabilitation investments. The "usage fee" is negotiated between the Governments and SITARAIL every three years. For the first three years, the usage fee will be as follows: no fee for the first year; 2% of SITARAIL's revenue for the second year (half to be paid the second year, and half in the third year); and 4% of the revenue for the third year. The equipment rental fee has been negotiated and is specified in the concession agreement.

### ***Rail infrastructure management***

SITARAIL is technically and financially responsible for train dispatch and maintenance of infrastructure (track, structures, buildings, signaling and telecommunication equipment). Maintenance standards and methods are freely determined by SITARAIL, provided standards guarantee rail safety at the level generally accepted in the industry for the type of traffic carried.

Infrastructure investment programs are prepared by the concessionaire and submitted to the technical and financial evaluation of the rail landlord corporations. Investment debt financing is mobilized by the States, but SITARAIL bears the full cost of the debt service through the third component of the concession fee. Investment contracts are prepared and signed by the railway landlord corporations, who also may implement them. However, at the request of the donor community providing the financing for the initial rehabilitation program presently under way, implementation responsibility has been transferred fully to SITARAIL.

### ***Motive power and rolling stock***

At the beginning of the concession, motive power and rolling stock were selected by SITARAIL among the existing SICF and SCFB fleets. This equipment is leased by SITARAIL from the two rail landlord corporations, who own it. Leased equipment is being rehabilitated by SITARAIL, under debt financing mobilized by the rail landlord corporation; the service of the debt is paid fully by SITARAIL.

New equipment can either be bought and financed directly by SITARAIL, or, at SITARAIL's request, bought by, and leased from, the rail landlord corporations. SITARAIL has directly bought four locomotives in 1996. The Governments enjoy the right to preempt the sale of SITARAIL-owned equipment at the price agreed with the prospective buyer.

### ***Staff***

SITARAIL is ruled by the common labor law applicable to private sector enterprises in Côte d'Ivoire and Burkina and affiliated to the pension system applicable to private sector employees.

The total number of SICF and SCFB staff to be rehired by SITARAIL at the beginning of the concession (1815 out of a total workforce of 3470) was negotiated during the preparation of the concession agreement. Individual staff were freely selected by SITARAIL. The Governments have provided severance payments to redundant staff, in part through financing provided by the donor community under sectoral and structural adjustment credits.

### ***Control of the concession and dispute resolution***

Control of the concession is carried out on behalf of the Governments by the rail landlord corporations. The

concession agreement stipulates that this control should not in any way curtail SITARAIL management autonomy. Reporting by SITARAIL on its activity is done through documents identified in the concession agreement (mainly annual accounts, annual report on services operated under a PSO scheme, annual report on rail safety, environmental protection, and application of the labor law). A monitoring committee comprised of representatives from the two Governments, the rail landlord corporations and SITARAIL examines all questions related to the execution of the concession agreement.

Disputes related to the concession agreement between the Governments and SITARAIL are subject to amicable arbitration. If the arbitration is not successful, disputes are settled by the Ivorian courts.

## INITIAL RESULTS

While it is naturally not possible to assess the success of the concessioning arrangement after only one year of operation, initial results obtained by SITARAIL appear clearly favorable. In the first full year of operation (October 1, 1995 to September 30, 1996), freight traffic almost doubled in comparison with 1994/95, the last full year of operation by SICF and SCFB (428 million tkm against about 230 million tkm) Quality of service rendered to freight customers improved substantially. Passenger services were restructured and loss-making services (national) were abandoned. The only passenger service kept is the long-distance international service Abidjan-Ouagadougou, which has reasonable prospects for financial profitability. As expected, SITARAIL incurred financial losses during its first year of operation, but these losses were lower than forecast.

## SOME LESSONS LEARNED

The experience of the first railway concession in Sub-Saharan Africa also provided lessons to the Bank, which closely monitored the process.

- **Bidding and selection process.** As regards the process for selecting the strategic shareholder of the concessionary company, the Bank now understands better the necessity of devoting more effort to the prospecting for potential operators to strengthen competition between candidates. The Bank also recognizes the large benefit of designing in the greatest possible detail the future "rules of the game" of the concession (notably through the draft concession agreement) before requesting bids. This would have significantly shortened the negotiation process between proposals and the signature of the concession agreement, which in the present case involved two Governments and two landlord corporations with sometimes diverging interests. It also would have been helpful subsequently to sort out implementation details for effective take-over of operations by the concessionaire. On the positive side, participation of railway workers' unions in the negotiation process at an early stage, despite its understandable difficulties, greatly eased the implementation of the massive staff reduction program which took place at the beginning of the concession, and was the key to a successful start of operations by the concessionaire.
- **Investment financing scheme.** The concessionaire defines the investment program and bears its cost through the service of the debt, which gives the incentive to a commercial approach to investing; however, the concessionaire does not bear all the borrowing risks, as financial resources are mainly mobilized by the States. This financing scheme, which could be criticized from a purely "orthodox" point of view, constituted in fact a good compromise in the prevailing investors risk context in Côte d'Ivoire and Burkina.
- **Railway landlord corporations.** The formula of railway landlord corporations followed arrangements used in other sectors, e.g., the electricity concession in Côte d'Ivoire. During the first year of the concession, it has led to misunderstandings and conflicts between the corporations and the concessionaire about their respective attributions. These conflicts have seriously delayed the implementation of the rehabilitation investment program. If the railway landlord corporations are assigned a major role in the implementation of future investment programs, as envisaged in the concession agreement, these difficulties are likely to resurge and increase. In the light of this experience, the Bank is presently advising other countries embarking on railway concessioning schemes against involving railway landlord corporations in the process.

## SUMMARY

As all "first" experiences, the Abidjan-Ouagadougou railway concession case entailed some imperfections, both in the conduct of the concessioning process and in some of the provisions of the concession agreement. However, in a

situation where the railway was rapidly and definitively losing its role in the transport sector, the concession arrangement provided a promising tool for correcting the major flaws which had beset the sub-sector for over a decade: lack of market orientation and poor service, continued operation of high-loss making passenger services on the basis of implicit-but not real-public service obligation, poor maintenance, gross over-staffing, lack of technical and financial discipline, heavy financial losses, and, finally, the splitting into two national railways while the main traffic is international. The joint decision of the Governments of Côte d'Ivoire and Burkina to concession railway activities was also a major breakthrough regarding the role of private operators in a sector which has traditionally been considered a reserve of public management. It triggered the concessioning process of several other railways in Western and Central Africa (Cameroon, Congo, Gabon) which are presently under way.