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# **Rail concessions in Africa since 1990**

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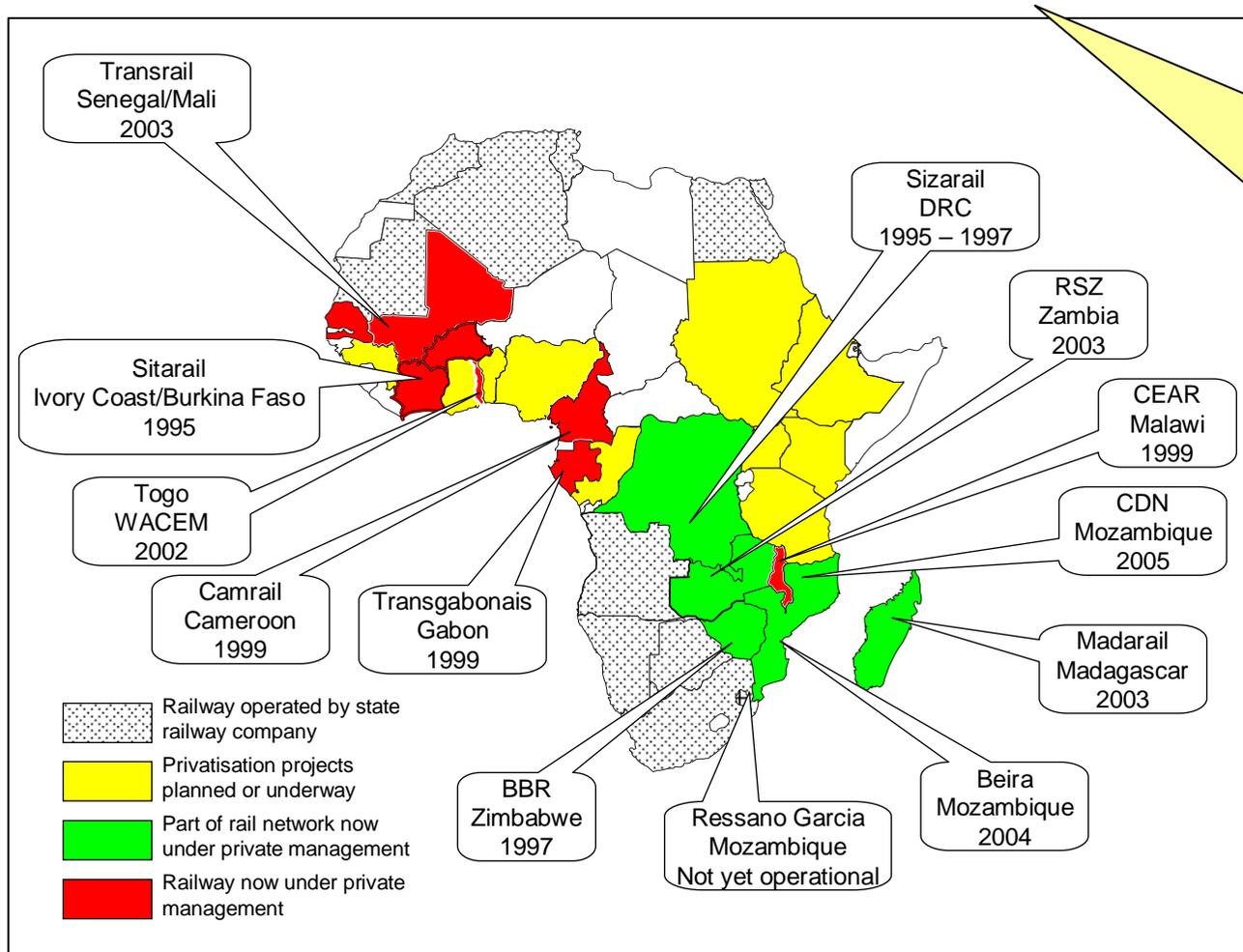
# **This presentation summarises the results of a review undertaken in mid-2005 of the impact of rail concessions and privatisations in Africa**

- ▶ One of three such reviews, covering Latin America, Africa and Australasia respectively
  - Funded by a grant from TRISP (IBRD/DFID)
- ▶ Principally concerned with the results of privatisation rather than the process or detailed concession structure.
- ▶ Primary focus on whether private sector participation has been better than a continuation of the previous situation
- ▶ Review only covers sub-Saharan Africa
  - generally describes the situation as it was in mid-2005.
- ▶ Full version available at [www.worldbank.org/transport](http://www.worldbank.org/transport)

## The review has three main sections

- ▶ Summary of railway development in the region to the start of the 1990's and a brief description of the main concessionaires
- ▶ Discussion of the thirteen concessions which have been awarded, particularly the three which have been operating the longest
- ▶ Assessment of the overall results of railway privatization/concessioning in terms of:
  - Role of rail (traffic level, mode share etc);
  - Productive efficiency;
  - Allocative efficiency, including service quality as appropriate to the market;
  - Investment in rail system (including renewal of assets);
  - Accessibility of the rail system to passenger and freight users;
  - Affordability, and possible direct and indirect impacts on the poor..

# 13 concessions had been awarded by mid-2005 and there have been a further two since then.

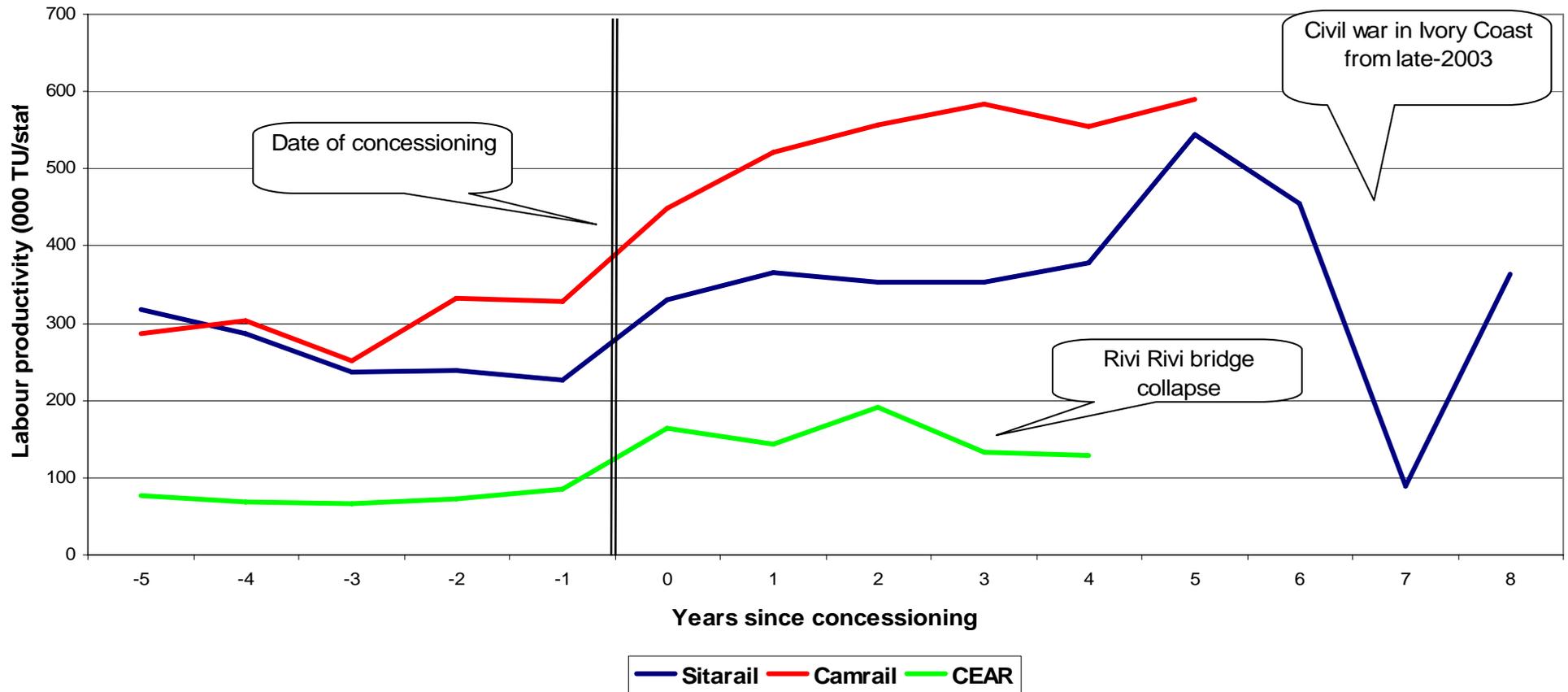


- Kenya/Uganda and Tanzania have both been awarded and are scheduled to commence in 2006.
- Sizarail (DRC) was 'cancelled' following a change in government
- Ressano Garcia was cancelled in late 2005
- Transgabonais was cancelled in 2003 and is being temporarily operated by the losing bidder.

## **Role of rail – only minerals are likely to remain a natural rail traffic – and government railways are handicapped in a competitive general freight market**

- Rail in Africa has been very slow to respond to:
  - increased road competitiveness
  - economic liberalisation and privatisation
  
- Infrastructure investment largely bilaterally and multilaterally funded
  - typically after the damage was done, and in some cases not at all.
  
- Rail has also suffered severely from natural disasters and the various wars and conflicts.
  
- Rail can be lower-cost than road, especially for minerals but not so clear-cut for general freight which requires road PUD
  
- The remaining rail monopolies, other than bulk minerals, will soon be gone and no rail system will be able to survive unless it becomes a transport business

# Productive efficiency - the evidence is quite clear: concession operators, almost without exception, operate their railways with fewer staff and with better asset utilization.



Three key indicators are: (i) traffic units (passenger-km plus net tonne-km) per staff, an indicator of labor productivity; (ii) traffic units per locomotive, and (iii) net tonne-km per wagon.

## **Allocative efficiency - the right transport flows moving on the right modes and routes at the right costs. rail – is probably better following concessioning**

- Are the costs the right costs?
  - Not ideal but a lot better than pre-concessioning
  
- Will the traffics be using the right mode?
  - Much more likely.
  
- Will the right traffic be going on the right routes?
  - This is not an issue on stand-alone systems but more difficult elsewhere
  
- For passenger services there are some special issues.
  - Few medium/long-distance passenger trains cover even variable costs.
  - Local trains are almost always poorly-performing
  
- Concessionaires improve the allocative efficiency for these services by:
  - drawing the government's attention to loss-making passenger services,
  - generally trying to operate them in the most efficient way possible

## **Investment - little infrastructure to date that is not financed by IFIs but some rollingstock has been privately funded**

- Most African concessions have been associated with substantial investments principally in infrastructure.
  - Mostly bilateral and multilateral financing
  - Concessioning has been, in most cases, a necessary condition to investment
  - Much of the investment has been 'catch up'
  
- Only 'commercially-funded' concessions are the Beitbridge Railway, Nacala and Zambia
  
- With the exception of Sitarail, rollingstock financing is the responsibility of the concessionaire
  
- Overall investment record so far is patchy. Two major considerations
  - few concessions have been generating the required cash flow
  - A reluctance to invest in assets whose life is significantly beyond the length of the concession.

## **Accessibility - little evidence of customers access to rail services being constrained**

- Few examples of any service reductions so that resources could be redeployed to selected users
- Comilog mineral trains on the Transgabonais are reported to receive priority over passenger services
  - But this is really an access regime issue
- In Zambia, the concessionaire is reportedly concentrating on longer-distance traffic from the Copperbelt to South Africa at the expense of local inter-mine movement of bulk minerals.
  - This reflects a decision by the concessionaire to concentrate his assets on those traffics which will be most profitable for him
  - And the mines do have the alternative of road transport
- Potential problems where the rail operator is, say, a major forwarder competing with other forwarders using the service

## **Affordability - little evidence that users have been adversely affected**

- Adverse impacts on the poor can arise:
  - directly, by making personal transport more expensive
  - indirectly, by making their supplies more expensive and reducing the prices they can achieve for their outputs through increases in freight tariffs.
  
- These need to be balanced against the financial benefits to the government of concessioning,
  
- No evidence that personal travel has been made more expensive for the very poor.
  
- The impact of concessioning on freight rates is ambiguous.
  - Some have increased but in general market shares are not sufficiently large significantly affect the selling price of commodities.
  - Any such price rises will generally have been balanced by an improvement in service level
  - Apart from a few cases, freight rates are effectively set by the competition,

# Overall, concessioning has been broadly positive for most systems in Africa

Role of rail	✓	Normally essential for the conversion of a traditional government railway to a commercial transport business.
Productive efficiency	✓ ✓	Improved labour productivity and asset utilisation
Allocative efficiency	✓	Better grasp of costs – and decision-making primarily on commercial basis leading to more efficient provision of services
Investment	✓ / -	Some rollingstock and support systems privately-funded but most infrastructure funded by IFIs
Accessibility	-	No evidence of any widespread negative impacts
Affordability	-	No evidence of any widespread negative impacts.

**But is the model sustainable in the medium/long-term? And, if not, does it matter?**