The World Bank Group

Railway Concessions in Sub-Saharan Africa: Lessons learned

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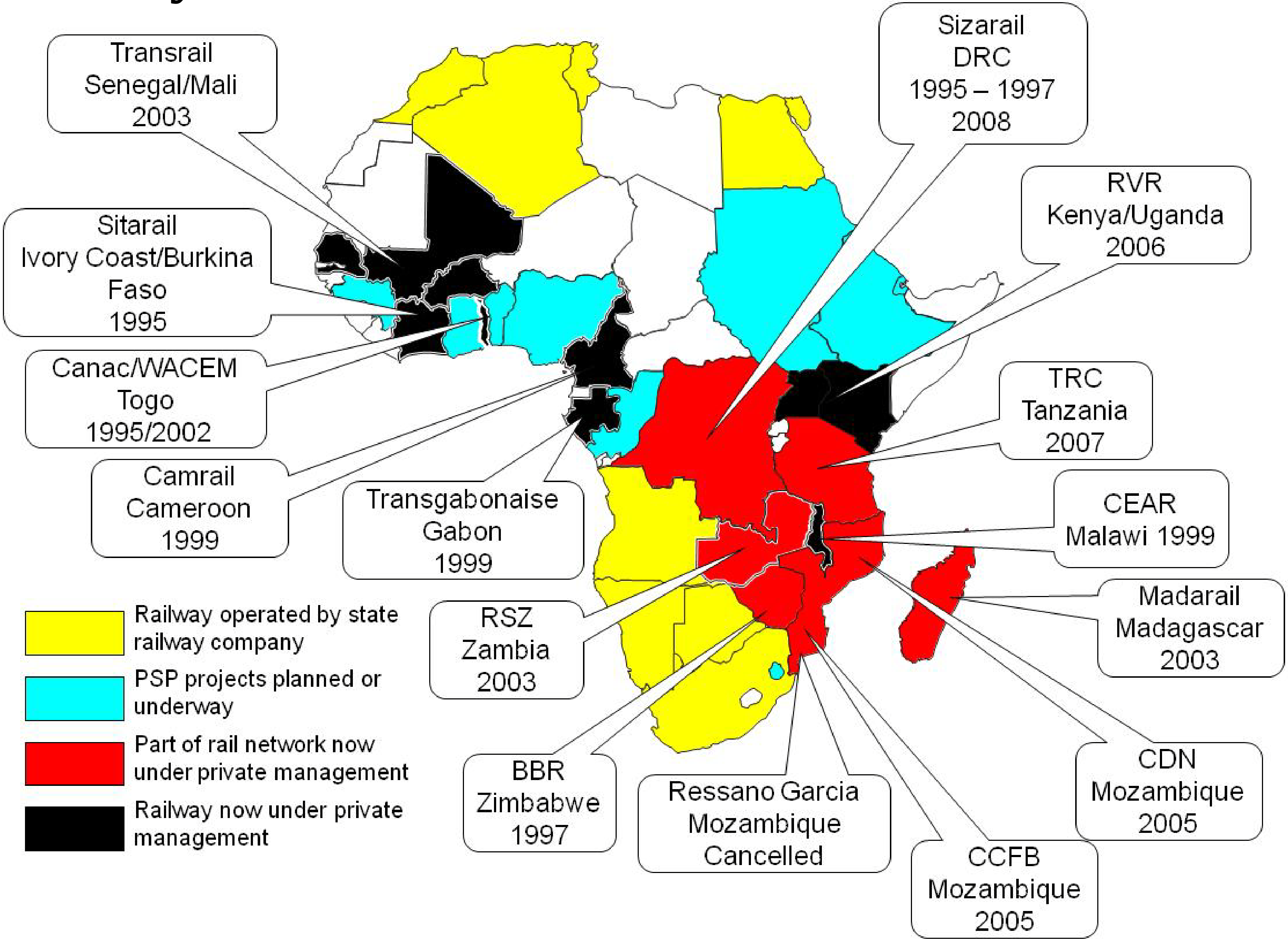
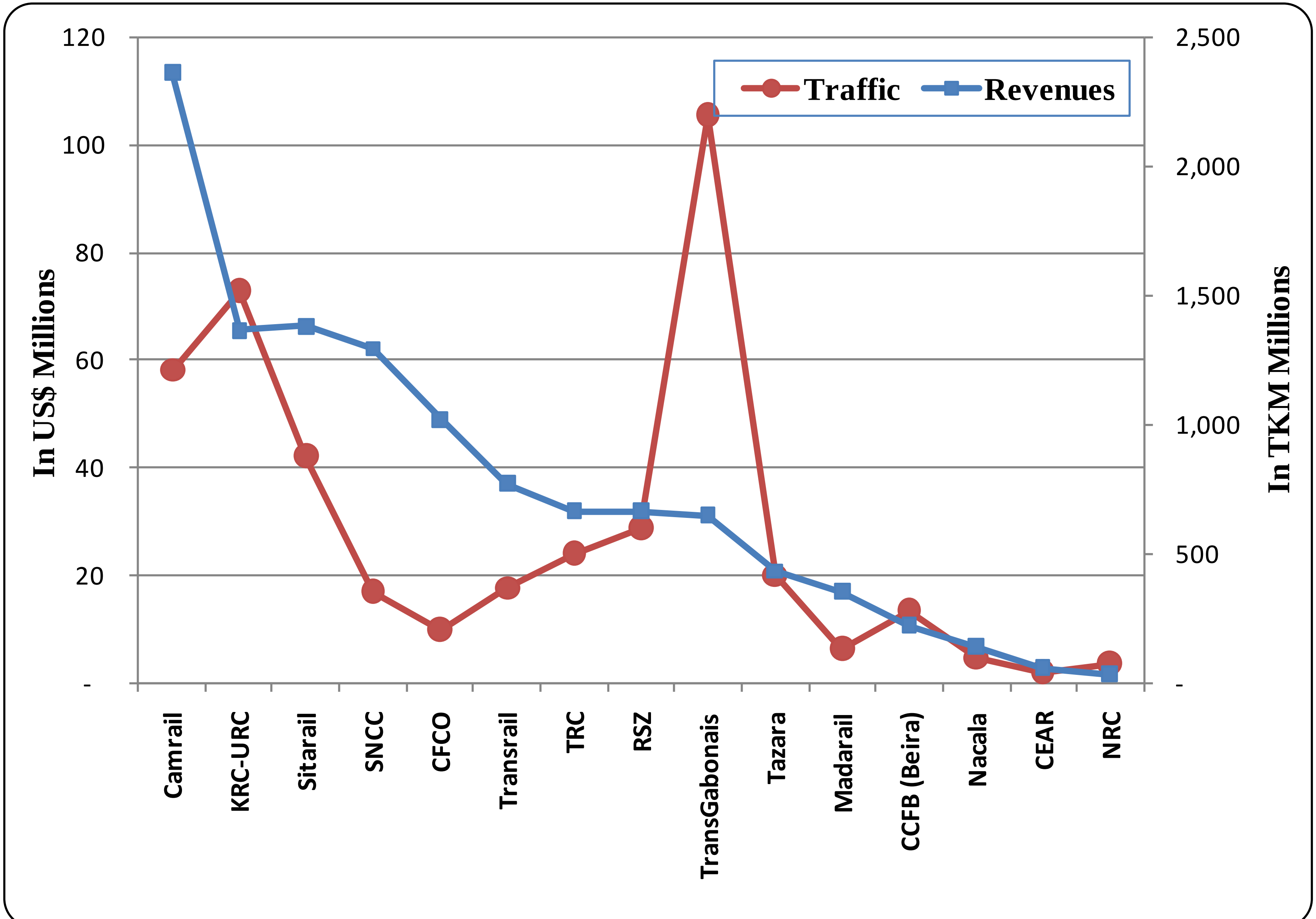
How much do we know?

- A lot:
  - First rail concession in Sub Saharan Africa (SSA) dates back to 1995 (Sitarail - links Abidjan to Ouagadougou)
  - Since 1995, rail operations in SSA have been privatized using all sort of public private partnerships (PPPs) – from management contract (Sizarail), to hybrid rail concession contracts of the “affermage” type (Sitarail), to full blown concession contracts (TRC, RSZ, Camrail).
  - Over the last 5 years, a large body of evidences regarding the performances , or lack thereof, of rail concessions in SSA has been published. The latest : “Off track: Railways in Sub Saharan Africa” published under the Africa Infrastructure series in 2009 provides ample details of the challenges facing rail operations in SSA and, de facto, rail concessions.
- The scope of this presentation will only be on the lessons learned from general freight and passengers mix rail concessions, not dedicated mining rail concessions.

Railways concessions in SSA: when and where



What are the activity levels of railway concessions (2008/2009)?



What is the current performance of rail concessions in SSA?

Concession	Countries	Year of concessioning	Network length (km)	Total support in US$ millions		Current Performance [1/]		Investment responsibility	
				IDA	IFC	Operational	Financial	Infrastructure	Rolling Stock
Sitarail	Ivory Coast, Burkina Faso	1995	1,245	21	none	**A**	**C**	Public	Private
Camrail	Cameroon	1999	1,104	113	none	**B**	**A**	Public	Private
CEAR	Malawi	2000	797	10	none	**D**	**D**	Private	Private
RSZ	Zambia	2002	1,273	35	none	**C**	**C**	Private	Private
Madarail	Madagascar	2003	681	65	none	**B**	**C**	Public	Private
Transrail	Senegal, Mali	2003	1,546	45	none	**C**	**D**	Private	Private
CCFB (Beira)	Mozambique	2005	725	110	none	**B**	**C**	Private	Private
TransGabonais	Gabon	2005	814	0	none	**B**	**C**	Public	Private
Nacala	Mozambique	2005	600	20	none	**C**	**D**	Private	Private
KRC-URC	Kenya-Uganda	2006	2,454	74	32	**C**	**D**	Private	Private
TRC	Tanzania	2007	2,722	35	44	**D**	**D**	Private	Private
TOTAL				**528**	**76**				

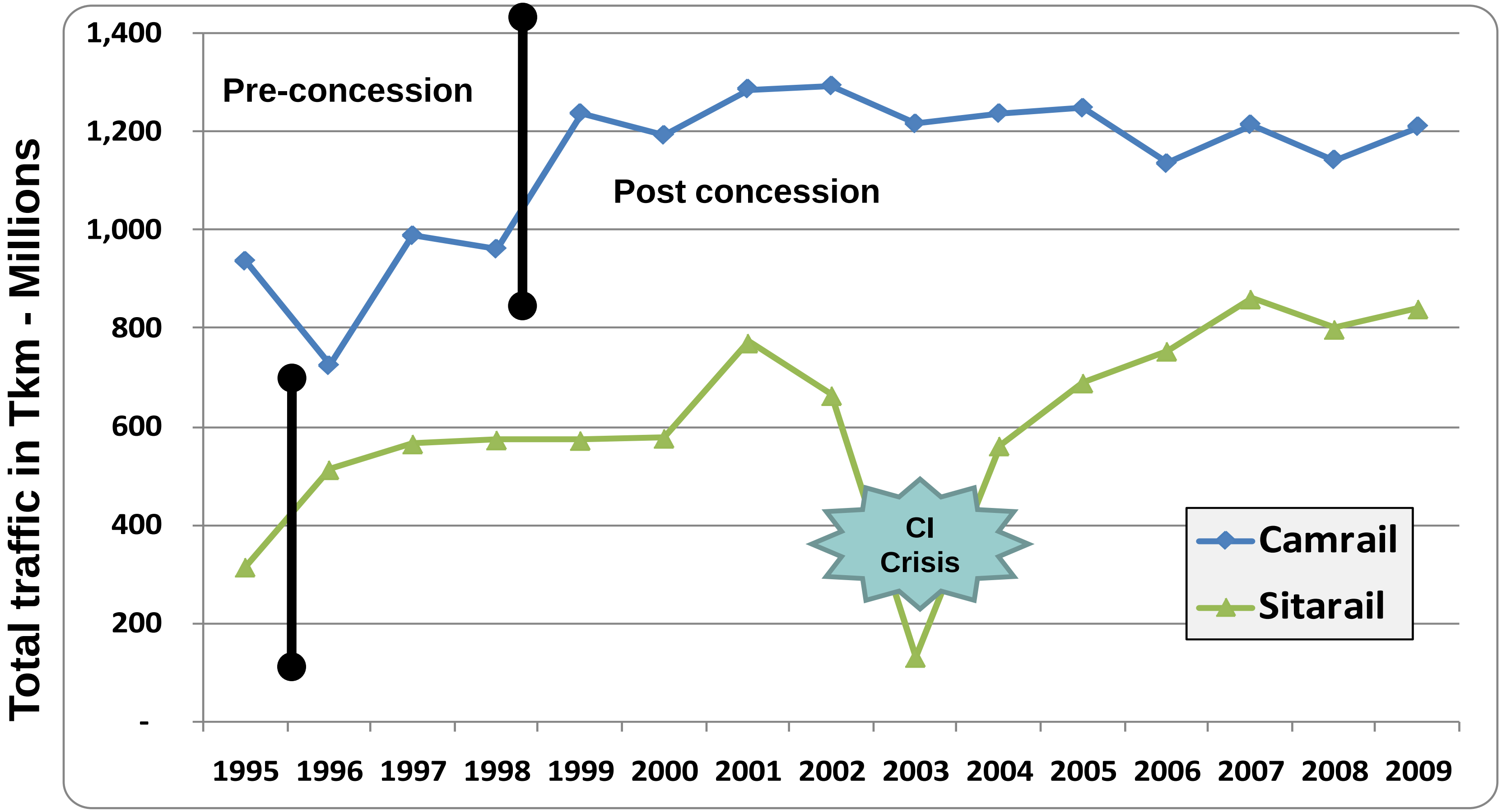
1/ **Operational Performance** provides a combined measure of rolling reliability, track incidents and quality and personnel productivity. A = best in class, B = Above average performance, C = Average performance and D = Below average performace.
1/ **Financial performance** provides a combined measure of net cash flow generation capacity, net income level and level of indebtness.
A = strong positive cash flow and net income (> 5% of turnover) and sustainable debt load, B = Positive cash flow and net income (<5% of turnover) and average debt load, C = Positive cash flow (<5% of turnover), negative net income and higher than average debt load, and D = negative cash flow and net income and high debt load.

Change of responsibility from Private to Public during the course of concession contract implementation

Although investment is a private responsibility, most investment to date was financed by on lending of Donors' money from host governments to the Concessionaire

Weak performance: overestimation of serviceable freight markets

- Traffic gains have been much lower than expected because: a) road haulers ability to adapt to renewed competition has been underestimated and, b) Host governments have failed to implement level playing field internmodal competition.



Weak performance: under estimation of investment needs

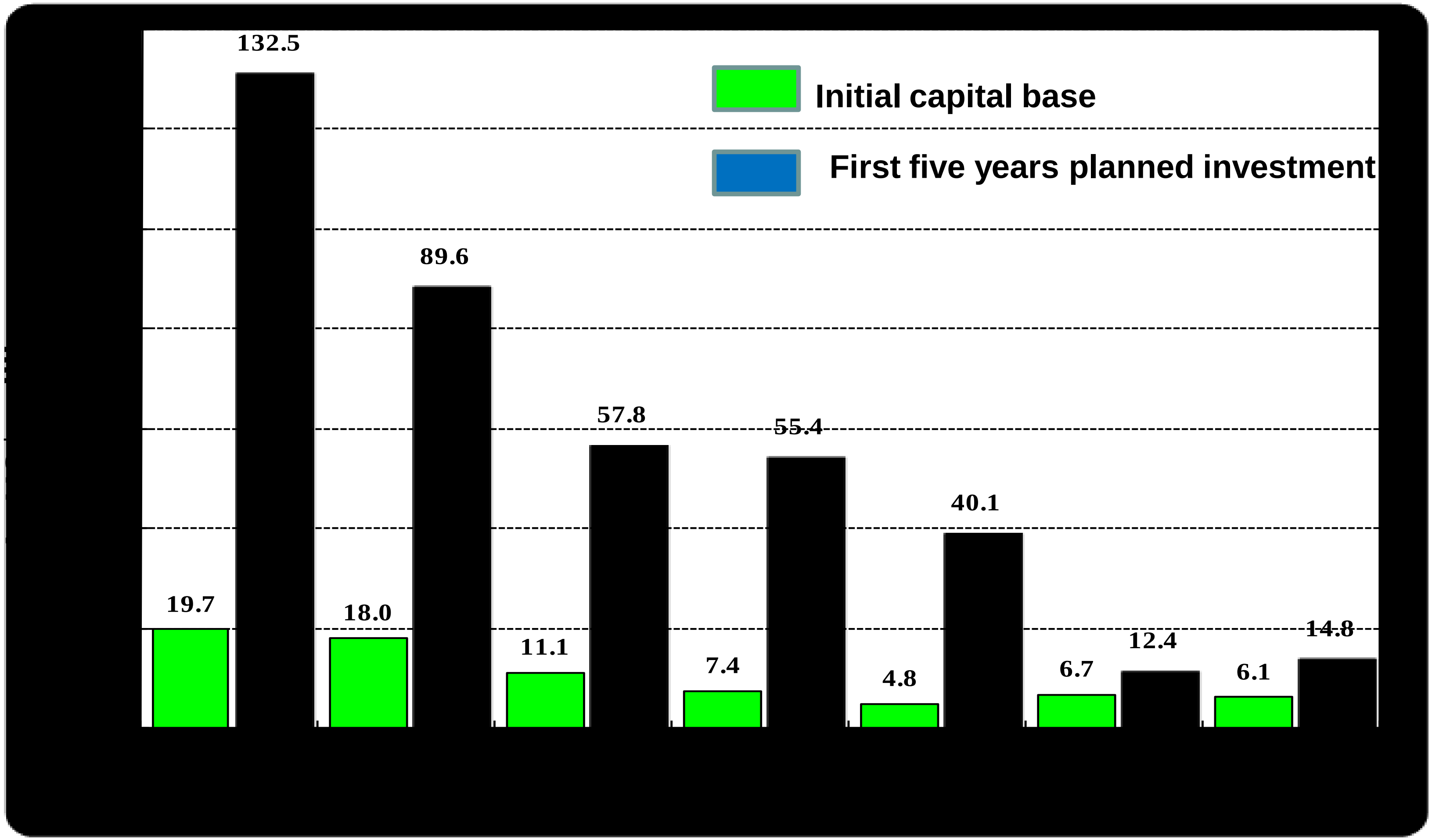
- Investment plans for infrastructure rehabilitation have focused only on the first five years of the concession. They have ignored long term needs that have proven to be much larger than anticipated as both Governments and private operators, at the concession bidding stage, have downplayed the decrepit state of rail infrastructure.

	2009 Total revenues (US$ millions)	Investments needs (2008/2020) (US$ millions)		Total investment as a multiple of 2009 revenues
		Infrastructure	Rolling Stock & related infrastructure	
Camrail	**114**	**174**	**198**	**3.3**
Sitarail	**66**	**132**	**99**	**3.5**

- Even assuming an annual high cash flow margin of 20% of net revenues, Camrail and Sitarail would need, respectively, 16 and 18 years to repay this investment using a no (zero) interest loan.

Weak performance: Undercapitalization of concessions

❑ Concession companies started with a far too limited capital base, in part to lower the risk perception of private investors. A lot of concessions felt rapidly into a cash strapped situation as projected positive cash flows did not materialize.



Weak performance: undue passenger services expectations

- ❑ Expectations related to passenger traffic led to misunderstandings between host Governments, concessionaires and the travelling public.
- ❑ No rail passenger services operated by private operators since 1996 have ever been financial viable. They have all benefited either from indirect subsidies from freight operations or direct subsidies from Government’s treasuries.
- ❑ Although subsidization of services does not constitute a problem per se, the political cost and risk associated by badly crafted subsidies scheme cannot be underestimated.

Weight of Passengers services and losses on Camrail’s financial bottom-line (2000-2008)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Pax losses as a % of net profit	308%	75%	187%	210%	114%	76%	69%	68%	98%
Pax losses as a % of net cash flow	30%	26%	48%	26%	24%	20%	20%	19%	21%
Pax rev as a % of total rev	11%	10%	11%	11%	11%	11%	13%	13%	13%

Weak performance: cross border railways management

- Cross border management presents specific challenges:

  - Accounting of transfer of infrastructure or rolling stock assets from one country to another;

  - Dependence of landlocked countries from their neighbor’s investment – how do we lock the commitment of one country vis-à-vis the other?

  - Synchronization of intermodal competition policies; and

  - Synchronization of long haul passenger services and deficit payments.

How do we account for the overall disappointing performance of railway concessions – summary of findings

- While they are many reasons that can account for the overall weak performance of railway concessions in SSA, four stand out:

  - Overestimation of the serviceable freight markets;
  - Underestimation of investment needs;
  - Undercapitalization of concessions; and
  - Undue expectations regarding passenger service.

Thank you
for your attention