

# Africa Transport Technical Note



Railway Restructuring (RR)

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## The Abidjan-Ouagadougou Railway Concession

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*Since the 1980s, most 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 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 seems to be 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.*

The Abidjan–Ouagadougou railway is a 1,260-km single track metric line constructed between 1905 and 1954 connecting the port of Abidjan in Côte d’Ivoire with Ouagadougou, the capital of Burkina. Although it was once the predominant transporter of freight and passengers in the corridor, the railway now faces strong competition from road transport as the region’s road network 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.

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 middle of the 1970s. From the late 1970s, operational and financial performance declined because of 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, and



in 1989, for political reasons, RAN split 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 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.

### PARTNERS IN THE CONCESSION

In July 1992, the Governments of Côte d'Ivoire and Burkina decided to reunify and privatize railway operations under a concession scheme. The World 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, and in March 1993 the Governments of Côte d'Ivoire and Burkina awarded the railway concession 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 Ivoirian investment group (SICC), Maersk (an international shipping line), railway engineering consultants SOFRERAIL and TRANSURB-CONSULT — holds 51 percent of SITARAIL's equity. Other SITARAIL shareholders are the States of Côte d'Ivoire and Burkina (15 percent each — partly through public corporations) and SITARAIL staff (3 percent). Sixteen percent of the shares, presently carried by SOFIB, are due to be sold to local private investors on the Abidjan Stock Exchange.

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 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.

### 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 has the freedom to set service configuration and tariffs, in accordance with profitability criteria set by SITARAIL. The concessionaire is simply required to keep the governments informed of the criteria used for selecting 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.

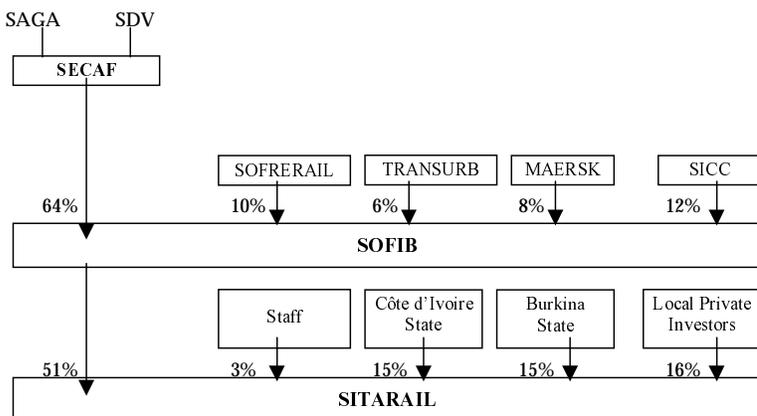
Services operated under a specific PSO scheme can be run at the request of one or both national governments, or at the request of local governments under special contracts between the authority requesting the service and SITARAIL. Contracts have to specify the characteristics of the service and the modalities of the financial compensation paid to SITARAIL. Presently, no service is operated under a PSO scheme.

The concession agreement reserves the governments' right to grant access to rail infrastructure to "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 fifteen 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 fif-

SITARAIL EQUITY STRUCTURE



three years. For the first three years, the usage fee will be as follows: no fee for the first year; 2 percent of SITARAIL's revenue for the second year (half to be paid the second year, and half in the third year); and 4 percent of the revenue for the third year. The equipment rental fee has been negotiated and is specified in the concession agreement.

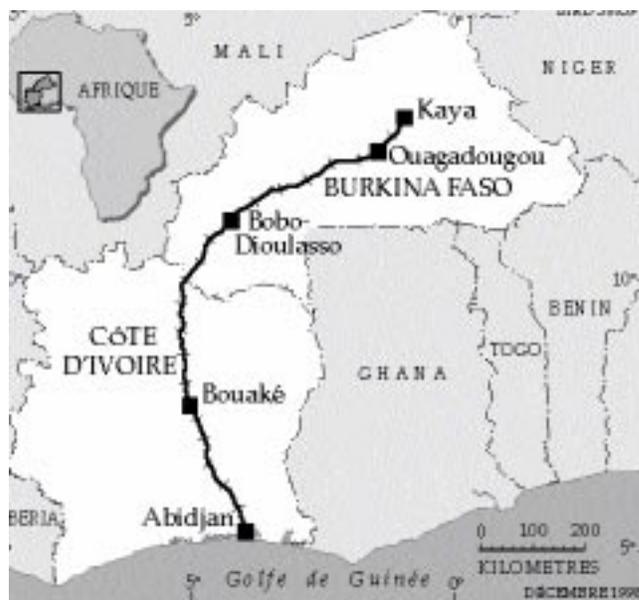
*Rail infrastructure management.* SITARAIL is technically and financially responsible for train dispatch and maintenance of infrastructure (track, structures, buildings, signaling, and telecommunication equipment). Maintenance standards and methods are freely determined by SITARAIL, provided standards 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 for technical and financial evaluation to the rail landlord corporations. The states mobilize investment debt financing, 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 may also implement them. However, at the request of the donor community financing the initial rehabilitation program, implementation responsibility has been transferred fully to SITARAIL.

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

New equipment can 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 have the right of first refusal on 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 with the pension system applicable to private sector employees. The number of SICF and SCFB staff rehired by SITARAIL at the beginning of the concession (1,815 out of a total workforce of 3,470) 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 and dispute resolution.* The rail landlord corporations carry out control of the concession on behalf of the governments. The concession agreement stipulates that this control should in no way curtail SITARAIL's management autonomy. SITARAIL reports on its activity 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, the Ivorian courts settle disputes.

## RESULTS

Although it is not possible to assess the success of the concessioning arrangement after only one year of operation, initial results obtained by SITARAIL seem 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.

## LESSONS

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.** Regarding the selection of the strategic shareholder of the concessionaire company, the World Bank now understands the importance of widening the effort to find potential operators in order to strengthen competition. The Bank also recognizes the benefit of detailing 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 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 eased the implementation of the massive staff reduction program that took place at the beginning of the concession.

- **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, because financial resources are mainly mobilized by the states. This financing scheme, which could be criticized from a purely “orthodox” point of view, was in fact a good compromise in the prevailing investor 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. The first year of the concession has seen 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 increase. In light of this experience, the Bank is advising other countries embarking on railway concessioning schemes against involving railway landlord corporations in the process.