

Railway concessions in Africa: difficulties encountered and possible solutions

Although railway lines may offer a great economic interest for certain African States, private players such as Bolloré Group, which manages Sitarail and Camrail under concessions, have to face a whole host of challenges. The investment burden, technical difficulties and fees that have to be paid to the conceding authority all add to companies' debts. A more balanced partnership and a sustained pace of investments would allow the true potential of railway development in Africa to be exploited.

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Bolloré Africa Logistics became involved in public-private partnerships in the rail sector as early as in the mid-1990s: in 1995 in Côte d'Ivoire and Burkina Faso via the Sitarail concession, then in 1999 in Cameroon with Camrail. Bolloré Africa Logistics consequently took over and reorganized the management



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of these rail networks, which were on the decline at that time. These State-run networks suffered from a lack of infrastructure renewal due to insufficient financial resources and were losing traffic to roads.

Bolloré Group is a long-term economic operator and investor in transport and logistics in Africa. It managed to convince international banks and donors to follow it in the launch of these two concessions. These partnership contracts, which run until 2030 for Sitarail and 2034 for Camrail, should allow these two rail networks to regain a good level of development.

OBSERVED AND EXPECTED BENEFITS

An efficient railway network brings a whole host of economic benefits. This means of transport has a positive impact on the level of port activities. It strengthens the role of Africa's

ports, which constitute a real economic powerhouse for the continent and a hub for goods transported by rail. Railways are essential for remote regions in order to reduce the energy bill: rail transport requires four times less diesel than by road. It helps keep international transport tariffs competitive. Finally, railways reduce pressure on roads – and consequently road maintenance costs.

They generally have a positive influence on the economic development of the relevant States. Activities such as agriculture, construction, mining projects (for example, Essakane in Burkina Faso) or oil projects (Doba in Chad) directly benefit from the presence of a competitive railway operator.

In Côte d'Ivoire and Burkina Faso, extremely strong benefits are expected from the plan to boost the rail sector – compared to the consequences of a line disappearing. The World Bank (Figure 1) estimates that the total economic impact of Sitarail over a ten-year period would represent roughly twice the investment required for infrastructure as estimated by the concessionaire (World Bank, 2009). Bolloré Africa Logistics has completed this assessment by looking at it from a longer-term perspective, factoring in the likelihood of a rise in road tariffs and envisaging what impacts the disappearance of a core sector for development which invests in training would have. They consequently estimate the indirect benefits for Burkina Faso, Côte d'Ivoire and Cameroon at EUR 850 million (Table 1). These estimates do not include the shortfall related to the possible development of the informal sector, or the economic impacts that the large number of road accidents have on the economy.

“When competition with roads has been unfair it has deepened deficits.”

SITARAIL

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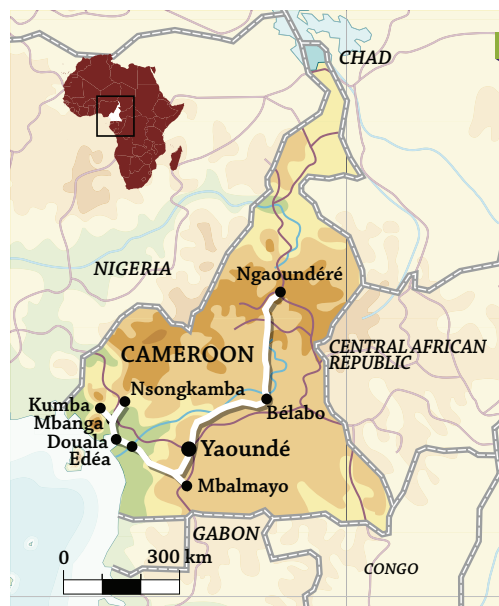
The railway line between Côte d'Ivoire and Burkina Faso was built between 1905 and 1954. From 1960 to 1989, it was managed and operated by a binational State-owned company, the Régie des chemins de fer Abidjan-Niger (RAN), which belonged to both countries. In 1995, Sitarail, a company based in Abidjan, became the concessionaire for this 1,260 km long network, which links up Abidjan and Kaya, for an initial period of 15 years. This was subsequently extended to 2030.



CAMRAIL

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In 1999, following the quasi-bankruptcy of Regifercam, Cameroon's national railway company, Camrail became the concessionaire of the country's railways. It is in charge of managing the 884 km of main tracks between Kumba, Douala and N'Gaoundéré until 2034. In 2008, Cameroon accepted to review Camrail's concession agreement. The aim was to share investments more evenly.



For the time being, the feasibility of certain mining projects (nickel and manganese in Burkina Faso, bauxite and iron in Cameroon), export development (oils, cotton, wood and fruit in general) and of supplying major urban centres necessarily requires railways that are economically and sustainably efficient. This development requires increasing the rolling stock fleet (engines and wagons). However, the financial capacities of companies continue to stem their growth. Bolloré Africa Logistics' aim is to improve rail network performance, in particular by seeking to go further than the commitments it has made in terms of service quality. It also provides its financial support in order to help change the way users perceive rail travel.

The efforts that have been made to renew tracks will allow an increase in transport capacity to be envisaged in the medium-term. Once the infrastructure on the current networks has been consolidated and extended to the main consumption sites or new mining centres, it will be possible to operate it in an optimal manner. It is only then that it will be possible to identify the remaining markets and to envisage interconnections in Central and Western Africa.

DIFFICULTIES ENCOUNTERED BY THE CONCESSIONAIRE

The first years of operating for the two concessions, Sitarail and Camrail, were marked by a considerable improvement in their operating performances compared to the last years when they were State-run. Customers very soon noticed the service improvement; railroad workers' support for the project showed States that a privatization operation could also be conducted with the agreement of employees. Despite hostile press campaigns – especially in Cameroon –, the steady growth in traffic, service reliability, productivity indexes and safety conditions all backed up the economic choices made by States. And for the latter, this *de facto* immediately reversed the trend in financial flows. Prior to the concession process, States paid huge subsidies to their national operators and consequently ran up both fiscal and social debts. Following the concession process, Sitarail and Camrail paid them fixed and floating license fees, taxes, duties and social contributions.

These payments were so high that they widely contributed to increasing the two companies' debts, despite the profits they had made. It is true, however, that investment needs were rising. Indeed, the works required to tackle the dilapidated state of the infrastructure were underestimated by experts. They consequently absorbed a level of investment and maintenance that was well above forecasts, which ruled out any possibility of developing the rolling stock fleet. In addition, despite the steady increase in the number of ►►

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Bolloré Africa Logistics was founded in 2008 and is the largest private concession operator in Africa. It is active in 43 countries through its 250 subsidiaries. With a 22,000-strong staff, it is one of the largest private employers in Africa. Bolloré Africa Logistics operates two rail networks under concessions: the network linking up Côte d'Ivoire and Burkina Faso (Sitarail) since 1995 and Cameroon's rail network (Camrail) since 1999.

What role for the private sector in African railways development?

►►► users and more trains running on time, certain factors widely contributed to giving a strong feeling that the service had deteriorated: traffic slowdowns (for technical and/or safety reasons), no passenger wagon renewal and lack of refurbishment in certain stations under State responsibility.

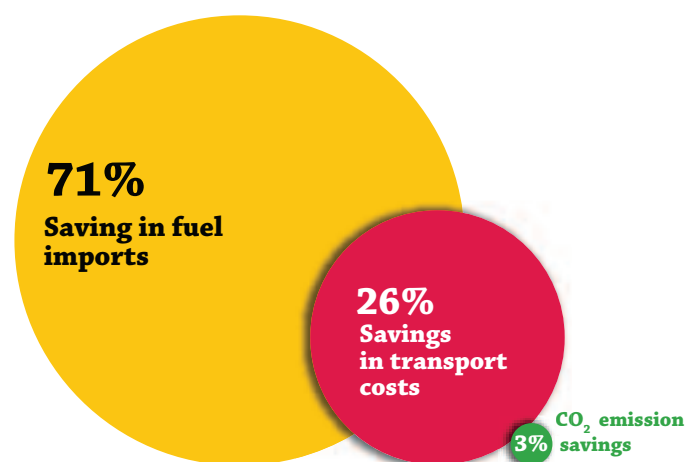
In cases where there was unfair competition from roads, the deficits worsened further still: no road tolls, little compliance with ton/axle weight restrictions, low investment needs, transport activities mainly based on the informal economy, etc. Despite its productivity gains, the rail sector was losing market share – whereas this means of transport is cleaner, cheaper and contributes to the State budget *via* taxes and duties (unlike the informal activities of most road haulage contractors). Bolloré Africa Logistics needed to come up with solutions to these problems with the agreement of the State: a new strategy was consequently required.

CONCESSION AGREEMENTS REVIEWED

States rapidly became aware of these difficulties. In Cameroon, despite sound operational performances, Camrail, which manages 884 kilometres of main tracks between Kumba, Douala and N'Gaoundéré, fell into a debt spiral which deprived it of any capacity to renew rolling stock. The public-private partnership which entrusted Bolloré Group, via Sitarail, with the management of the railway between Côte d'Ivoire and Burkina Faso (1,260 kilometres of tracks) no longer allows the concessionaire to meet its investment needs for the renewal of rolling stock or certain aging track sections. This first concession agreement could perhaps have been extended by a few years if there had been excellent operational performances, but this was without allowing for the Ivorian crisis of 2002-2003, or the ongoing crisis.

In order to be fully transparent in addressing these review plans, donors helped States assess the macroeconomic issues of their concessions and their concessionaires' performances (Figure 2). In 2008, Cameroon accepted to undertake a review of the concession agreement with Camrail in order to redefine the scope of the partnership and share the investments in a more balanced manner. The concessionaire will no longer bear the infrastructure cost alone. The aim is to gradually clear Camrail's debt from 2014-2019. For its part, the Cameroonian State intends to maintain a good level of public service and establish a balancing mechanism for a strategic activity sector in a country where opening up the north is an important socioeconomic

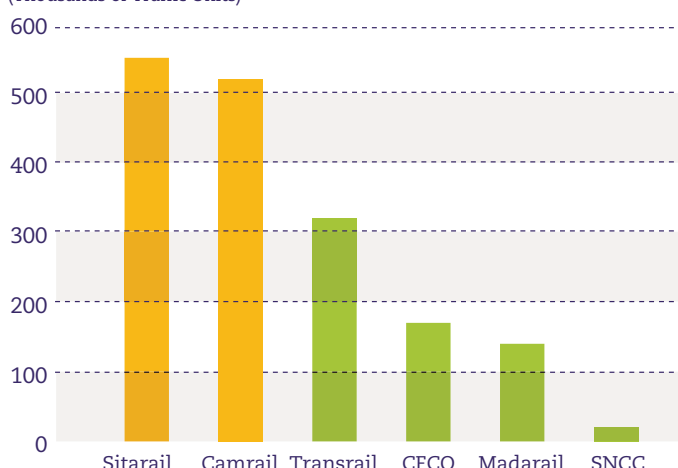
FIGURE 1: BREAKDOWN OF SAVINGS GENERATED BY SITARAIL IN 2008



Nota bene: Estimation based on a total saving of FCFA 9 billion (EUR 13.7 million)
Source: World Bank, 2009

FIGURE 2: STAFF PRODUCTIVITY IN CERTAIN AFRICAN COMPANIES IN 2008

(Thousands of Traffic Units)



Nota bene: Transrail operates in Mali and Congo-Ocean Railways (CFCO) in the Republic of Congo. Madarail is a Malagasy company, the Congo National Railway Company (SNCC) is that of the Democratic Republic of Congo.

Source: World Bank, 2009

TABLE 1: INDIRECT ECONOMIC GAINS FROM SITARAIL AND CAMRAIL FOR STATES (IN MILLIONS OF EUROS)

	20 years
Training	7
Transport cost saving / road (30% of OAC)	365
Crude fuel imports 50% excl. of VAT (ratio: 1 track to 4 roads)	303
Savings in CO ₂ emissions / road	36
Savings in road maintenance costs (5,000 USD/km/year x 1,155 km)	107
Port revenues (port taxes)	35
Total indirect gains for States	853

Source: Bolloré, 2009

issue. Similarly, if it manages to survive the current crisis, the Sitarail agreement should be reviewed very shortly.

In Cameroon, EUR 350 million of investments have been made since 2008; over two-thirds of this has been borne by the concessionaire. In Côte d'Ivoire and Burkina Faso, investments are estimated at EUR 192 million. Bolloré Africa Logistics has invested – either directly or as the delegated contracting authority – some EUR 800 million. These figures are scrutinized by committees involving several local ministries and donors, which periodically evaluate the concessionaires' management. This major commitment by Bolloré Africa Logistics is based on the following analysis: these rail networks are

“Rail transport is cleaner and cheaper than road transport and contributes to State budgets via taxes and duties.”

the essential link to achieving a cost-performance balance for the economic operators of corridors serving northern Côte d'Ivoire, Burkina Faso (and even Mali), as well as northern Cameroon, Chad and the Central African Republic. The long-term growth in Bolloré Africa Logistics' activities requires greater competitiveness in the economies served and an increase in their volume.

Both Camrail and Sitarail's resources converge to meet the commitments to renew equipment, clear the debts of concessions and renew the expertise of these two companies. They are clearly aiming to be exemplary and are aware of the fact that they are

engines of the economies of the States in which they are established. This responsibility – that Bolloré Group is fully aware of – is a further source of motivation, despite the management difficulties that may have seemed overwhelming to any private investor in many respects.

In addition to the constraints related to infrastructure quality – the two networks have metric tracks with a single block system, which means interconnections between villages are not possible –, their fleet equipment is limited in terms of the rail market. The wagon mix, for its part, shows a low level of containerization and corresponds to a 1980s vision of transport. These factors limit both the size of renewal orders and access to certain manufacturers. They also have an impact on production time and costs. But, above all, they do not yet allow access to the long-term leasing market for railway equipment.

These African railway networks still enjoy a high traffic absorption capacity and are consequently far from having reached saturation point. New markets are still accessible. Africa has real development potential ahead of it provided, however, that it can sustainably adapt to the new situation in terms of transport “product mix”: liquid and mineral containerized traffic. Today, there are real development prospects for these railway lines in terms of both passenger and freight transport. •