TransAfrica 21 Rail and Port conference

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The conference was organized by GlobalSA at the Commonwealth centre, London, 10-11 May, to highlight investment and business opportunities in Africa's transport sector. As conferences go this was a well-attended and productive one. There were a lot of nuts and bolts men as well as the political establishment and other ancillary cogs in the transport chain.

The conference brought together rail and port operators in the southern and eastern region with one or two West African representatives. Discussions centred on the dynamic trends in the region as governments part with their silver. Your correspondent concentrated mainly on the country reports of operators of ports and rail systems. The central theme was efforts by all governments in the region at selling, leasing or operating joint venture projects relating to these sectors. Transport systems are crucial in enabling domestic and private investment and the state of this infrastructure needs to be significantly improved in whatever ownership form. In all of the countries represented at the conference railways play an important role in terms of passenger and goods traffic.

Table 1 Rail use in countries represented at the conference 1998

Country	**Rail Passenger km per ppp $million GDP**	**Goods by rail ton-km per $ millions of GDP**
Cote d'Ivoire	6,125	19,827
Cameroon	13,282	37,719
Kenya	12,585	41,917
Namibia	5,887	129,941
Nigeria	26,710	4,834
South Africa	28,670	283,262
Tanzania		71,671
Uganda		4,990
Zambia	28,868	57,858
Zimbabwe	16,784	140,231

Source: UNCTAD

The report by Eitan Dvir, CEO of Beitbridge-Bulawayo Railway, (**BBR**) noted the remarkable strides that company has made in the southern (corridor) and southeast Africa. The company's expansion has seen it lease rolling stock from Botswana Railways as transit traffic has been diverted from that rail system. **Trans Africa Railways Corp**, a consortium of which a subsidiary of Spoornet, the South African railway group is playing a major role, is the active player in the central corridor, linking Dar Es Salam with landlocked countries such as Zambia, Zimbabwe down to South Africa. The major problems according to Simon Fourie, the General Manager, remain the high level of red tape, skills shortage, theft of stocks and the work ethic. On the plus side Trans Africa Corp is in the enviable position where the demand for its services is higher than they can provide. Challenges include improving availability and utilisation of installed capacity, progressing on their Intermodal structure and helping develop a maintenance culture. Expediting the privatisation process of the other cogs in the transport system would help alleviate bottlenecks and most importantly arrest the deterioration in the work ethic that continues to take place in the current work environment.

According to Douglas Odete, Managing Director, **Kenya railways** is making operating profits and has restructured in the last 10 years to shed half of its workforce from 20,000 ten years ago and it is projected that the current workforce would be halved to 5000. Kenya Railways is according to its MD making operating profit. The Government is committed to privatise a unitary concession involving rolling stock although it will retain control of the track, assets and regulatory framework. Some operations are currently privatised, with a South African company running some locomotives. Freight accounts for 95% of revenue with the passenger service, which Mr Odete agrees is unprofitable, accounting for the remaining 5%. The company was running at only 44% of its 5.5 million tonne capacity. Kenya railways services the northern corridor.

Uganda railways is another railway with surplus capacity, having purchased additional locomotives after the break up of the East African Railways. Liberalisation of commodity marketing has seen keen competition from road freight operators. Other pitfalls which have recently affected performance include increased tax, adverse weather and according to the current Managing Director, Daudi Murungi, unfocussed management. The railway is being privatised and bids are already being received. Maintenance functions are currently under private management. The assets of the railway will be leased out to the successful bidder, while the government, donor agencies and the leaseholder will maintain the infrastructure. The company is committed to reduce staff, debt and making some investment prior to privatisation. Mr Murungi reported that the company is making operating profit.

Botswana Railways is earmarked for privatisation although, the railway is third in line after Air Botswana and telecommunications. The railway does not receive subsidy and according to Babe Botana, the General Manger is profitable. Botswana Railway's productivity was very sensitive to transit traffic which is being diverted through BBR hence the lease of surplus rolling stock. Botswana Railways is considering a new line linking Namibia ports, to reduce its dependence and vulnerability to the turmoil in Zimbabwe. The company is looking at new revenue streams such as exports and imports and property.

Dr Peingeondjabi Shipoh, CEO of **TransNamibia** holdings highlighted the various revenue streams including the dessert express, passenger commuter train, property, telecom network, engineering workshop, cleaning services, customs and excise processing, courier services and railway security. This railway group is very keen on the proposed rail spur linking Botswana Railways, hopefully with Botswana providing much of the capital.

The CEO of Spoornet, Mr Zandile Jakavula, gave an update of recent developments in the largest rail system in the world. The South African Government is expected to make an announcement about its privatisation policy in June. For interested parties this rail network with a commuter service, general freight, the prestigious blue train, specialised freight for coal and iron ore and nine passenger routes is the crown in the jewel of railways. Rail transport accounts for 59% of the total transport function in the Republic and there are immediate plans to spend 1 Billion Rands on rolling stock and in the medium to long term the aim is to invest 48 billion Rands. Efforts have being made to develop an Intermodal structure, links are being forged with road freight operators.

In an exclusive interview with Mr Jakavula, he gave the mission statement of Spoornet as being "the leaders in general freight logistics in South Africa and neighbouring states to provide a reliable and affordable solution that has been jointly discussed with customers". Spoornet, through its subsidiaries, is a truly African player and moving on to becoming a global one with operations and negotiations going on in Botswana, Zimbabwe, Zambia, Uganda, Tanzania, Mauritius Cameroon and Brazil.

The privatisation and restructuring process would take 3-4 years, allowing for an upgrade of the infrastructure. Mr Jakavula supports the move towards privatisation with some reservation about the two lines for coal and iron ore. Firstly, mining in both cases is guaranteed (the estimated life of the mines) for 25 years and there is no competition for the services. The lines are highly efficient, operating at 108% capacity and transferring such a profitable operation would be giving the new owners license to print money (LogAfrica quote). His view is for the government to sell equity – 30% was mentioned – to private investors and enjoy future dividend payments.

In response to LogAfrica's query on how the company compares to similar operators Mr Jakavula said Spoornet is one of the best for maintenance, technical expertise and freight movement compared to other railway systems of similar size. The CEO of the largest railway network in Africa was, without being explicit comparing Spoornet to world players. He was actively developing Intermodal links on the commercial front as well as pressing the government to build new roads where the rail network is not available.

PORTS

Namibia Ports Authority is a fully commercialised company and Walvis Bay port has recently being voted the most efficient port in Africa in a recent African competitive report. . Recent developments include the deepening of Walvis Bay to 12.8 meters, the acquisition of a sophisticated software system form Hamburg Port and an innovative currency swap finance deal to cope with a depreciating Rand. The Walvis Bay port is operating at only 35% of full capacity. Most operations were currently handled by users, that is, exporters and importers.

Portnet The new ports Act currently being debated by policy makers will define the roles and obligations of the various partners and the framework in which they operate. The Coega IDZ/Nqquera port project is the biggest port activity South Africa has seen for a long time. The new port and associated infrastructure will, the authorities hope spur manufacturing activity so that South Africa will move away from exporting primary commodities and instead process and add value to such commodities as well as other light manufacturing.

Samson Luhigo, Director General of **Tanzania Harbours Authority** noted that the container terminal that had recently been privatised was running well. Other operations that are being considered for privatisation include the grain terminal, general cargo and marine services. This operator feels it is being put at a disadvantage by shippers who charge up to $600 more than rates specified for South African ports for delivery of containers.

The stand in for Mallam Nasir El-Rufai, Director General of the **Bureau of Public Enterprises** gave a brief outline of the privatisation process for the Nigeria Railways and that country's port operator. The process is at an early stage, the politicians are still debating the pros and cons, and meanwhile in the last few weeks we are seeing a repeat of the 1980s when there were huge queues at Nigerian ports. The formula for privatisation is 20% to the Nigerian public, 40% to be retained by the government and 40% by foreign investors.

LogAfrica's commentary

Politicians, African and first world rail and port operators and ancillary industry representatives did an excellent job outlining and analysing initiatives relating to the current and planned policy framework. Rail and train operators gave reports of their operations, problems and potentials. A useful exercise, as there were many company Executives in the crowd who would be bidding for the port and rail companies that are being sold off by African Governments. The conference was therefore very timely as all

African countries are discussing, planning, or selling what remains of their ports and rail networks. LogAfrica's commentary looks at ways in which a similar conference in the future can be expanded to make it an even more productive forum.

Although billed as a transport conference, it did not cover the main form of transport on the continent, namely road traffic. Admittedly most road-freight and transport are already in private ownership and therefore do not merit as much attention in the current debate on privatisation. However a transformation taking place in the framework in which people and goods are moved and the latter traded means that a transport discussion would need to include road, airfreight and shipping. Furthermore, PPP is increasingly being discussed or implemented across the continent with private companies building and operating toll roads.

A missing element is the lack of adequate discussion of Intermodal transport systems that is how train and port operators are interfacing with each other and the various other cogs in the transport chain. Spoornet and TransAfrica Corp made some brief mention of it and the latter mentioned that problems at Dar es Salaam port have negative implications on its operations. The subject was treated though as an anecdote rather as an essential part of the transport function.

While some speakers listed the various revenue streams in detail it appears that not enough attention has been paid to this potential bonanza by all operators. Areas, which offer great potential, include telecommunications, property, EPZ zones, and the various operations such as engineering and maintenance operations. A comprehensive list of current and potential revenue streams will ensure that governments maximise the value of companies being put on sale. Telecommunications in particular holds great potential for rail operators because of the abysmally high revenue accruing to existing mainline operators and the long waiting times for phones. Rail and port operators often have prime property, which can be developed and sold or leased.

Virtually all operators claimed to be making operating profits while at the same time most are operating at capacities significantly below full capacity. This positive report goes against popular perception that these parastatals are all making losses and raking in hefty subsidies. Alternatively, the organisers deliberately chose to invite only profitable parastatals. If these parastatals are making operating profits why should they be privatised? Dr Shipoh of Namibia Railways gave the answer to this question as follows. If parastatals are making operating profits privatisation can unlock shareholder value and provide much needed capital for governments to spend on areas like education and health. These are areas currently starved of funds where the private sector cannot and should not take the lead. If such companies are making losses then they should be sold to stop the haemorrhaging of governments' finances.

Another caveat to the issue is the speed of privatisation. It must be expedited otherwise a chain of adverse events will follow. The deterioration of the work ethic will continue. Furthermore the longer it takes the wider will be technical skills gap of existing work force and the needs of fast changing technology and business and working practices. Consequently the harder it is for nationals to be taken on by the new operators. This is particular the case of Kenya and Nigeria where the process is proving to be long drawn out.

African governments need to carefully consider the privatisation and other operational models adopted to ensure uptake and maximise the benefits to their countries. The Nigerian programme is likely to prove troublesome because of the ownership structure.

That country needs to attract significant direct foreign investment but as long as it embarks on the formula which is 20% Nigerian public, 40% Nigerian Government and 40% foreign ownership it will fail to attract significant foreign capital. Foreign investors will be reluctant to invest medium to long-term capital in this market if they do not have majority ownership. If this formula is not reviewed we are likely to see a repeat of the recent telecom privatisation, which saw the Government using its scarce foreign exchange to underwrite the sale.

The fact that the government in Kenya will retain ownership and control of the rail tracks is an issue that needs to be reviewed in the light of reports on the poor maintenance record in the region. Government could retain ownership but outsourced track maintenance to private operators. The case for South African Government retaining ownership for rent income from the rail lines for coal and iron ore is a good one but the government could retain minority (49%) shares and secure immediate and future capital with the private operator in the driving seat.

One issue, which needs to be a subject of much debate, is post privatisation. At issue is the regulatory framework that will govern the players in a business environment that will be radically different from the current situation. The key question is what benchmarks are being set and what are the review mechanisms in place in the new liberalised market. How do governments cope with natural monopolies, how can they asses the effectiveness of a 20 year lease and what mechanisms are in place to review and if necessary revoke leases if companies are not performing as agreed in the contract? How will governments ensure effective competition within transport sub-sectors and the transport sectors as a whole? How does market liberalisation in commodity and consumer markets impact on the various sub-sectors? Uganda Railways for example was in for a rude shock when the commodity markets were liberalised and ushered in increased competition from road freight operators.

In a post privatisation scenario, with commercially (and politically) attuned operators being regulated by poorly paid, resourced and motivated government officials, the possibility of corruption will be high. The picture emerging is that there will be a few operators who will control southern, central and northern corridors and a similar concentration will build up in terms of management of ports. To ensure that the benefits of privatisation reach users and improve the infrastructure benchmarks and efficiency and pricing indicators must be set. The regulatory body for these rail and port authorities must be independent, funded by a levy on all privatised companies, properly staffed and resourced.

In the post privatisation scenario will the new companies try to take in local staff or bring in foreign expertise because they are tried and tested personnel and have the necessary work experience and ethic? Governments should respond to this issue in three ways. Firstly, the package offered to investors should include a clause that all efforts will be made to employ qualified local staff and a weight relating to a bidder's human resource programme assigned in assessment of bids. Secondly, generous tax incentives should be given to new owners for the training of local staff and lastly, punitive taxes should be levied on a graduated basis on the employment of foreign staff, starting from zero in year one.

In the next conference on transport in the region it would be a good idea to include West Africa, the former French colonies and the horn of Africa. These other sub-regions are going through a similar exercise and their problems, challenges and opportunities can be discussed in such a forum. Finally, this kind of conference should be held in Africa where these dynamics are unfolding and whose economies would benefit in terms of the conference income and nationals will gain experience in hosting such venues, the new economy.

Business Prospects for Rail and Port systems

Operator	Country	Business prospect	Positive factor	Negative factor	Current status
BBR	**Zimbabwe**, Zambia, Mozambique	Acquisitions, lease locomotives, export and import	Aggressive consolidator in southern corridor	Home base is Zimbabwe	Active private player in southern corridor
Tran Africa	**Tanzania,** Zimbabwe, Zambia, Mozambique and South Africa	Acquisitions, lease of rolling stock, rail operator	Lead player in rail systems in Africa, strong demand for its services	Ownership and structure of Spoornet, major partner to be decided	Active consortium playe in southern and eastern corridor.
Kenya Railways	**Kenya**	Sale of unitary concession of rolling stock, private operators operate limited rolling stock,	Surplus capacity, freight operation healthy	Passenger service, high staffing level, protracted privatisation process	Planning stage of privatisation of unitary concession, operates northern corridor
Uganda Railways	**Uganda**	Sale of unitary concession of rolling stock, Maintenance concession	Surplus rolling stock, links to northern and central corridors	Relatively small operation, Competitive road freight	Bids being received for privatisation
Botswana Railways	**Botswana**	Unitary concession, proposed new line to Namibia, property, lease rolling stock	Surplus rolling stock, prime property, flat terrain, solvent government	Small market, no economic activity such as mining to justify new line	Planning privatisation
Namibia Railways Group	**Namibia**	Dessert Express, Passenger commuter service, property, telecom, engineering workshop, cleaning, export	Well managed, clearly identified revenue streams, proposed line extension to open links to	Small home base, no economic activity to justify line extension.	

		forwarding, train security, line extension to Botswana	Botswana, Zambia, Zimbabwe and Malawi		
Spoornet	**South Africa** Botswana, Zimbabwe, Zambia	Commuter service, general freight, mainline passenger service, the Blue train, Coal freight, iron freight	Largest network in Africa, monopoly service for mines, opportunity for expansion in rest of Africa and South America	Strong opposition from trade unions to privatisation	Planning stage fo privatisation
Namibia Ports	**Namibia,** South Africa	Deep sea port, dry dock, Freeport,	Lean and efficient operations, closest port to the Americas in southern Africa, surplus capacity	Relatively small home base and strong competition from South African ports	State owned autonomous and commercialised unit
Tanzania Ports	**Tanzania,** Uganda, Zambia, Burundi, Rwanda	General cargo, grain terminal and marine services	Conducive macro-business environment, advanced privatisation process	Relatively small base, red tape, need to re-invigorate the work ethic	Privatisation of remaining enterprises
Portnet	**South Africa,** Zimbabwe, Botswana, Zambia	Port Authority, most comprehensive port activity in Africa, Coega IDZ/Nqquera Port project, manufacturing, light industry	Big items, Coega IDZ/Nqquera Port project – biggest port development in Africa, Container traffic higher than world average	Legislative framework in early stages, labour relations in a state of flux	Imminent Ports Act to specify roles and obligations and set parameters and framework for public and private players

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