



Review of Railway Concessions in the SADC Region

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Agenda

- Overview Railway Concessions
 - Zimbabwe
 - Zambia
 - Mozambique
 - Malawi
 - Tanzania
- Objectives of Privatization
- Regulatory Environment
- Post Concession Performance
- Lessons Learned

Background

- Following the concessioning of some railways in Southern Africa, a number of challenges seemed to have emerged
 - declining performance in certain areas,
 - declining state of infrastructure,
 - massive retrenchments,
 - reduced business cooperation amongst railways in certain areas,
 - reduced frequencies of passenger services.
 - the States subsidies to railways had been eliminated,
 - As a result of the reduced capacity of such railways, some traditional rail traffic has since moved on to the road, causing immense damage to road pavements

Background

- SADC Ministers responsible for Transport approved a study
 - “Review of the Effectiveness of Rail Concessions in the SADC Region”.
- Southern African Development Community (SADC) Secretariat has commissioned this study to address the request of the Ministers and the Member States.
- The overall objective of this study
 - review railway concessioning processes in the SADC region with a view to draw important lessons regarding the effectiveness of the policy position and implementation process for that policy position.

Beitbridge Bulawayo Railway

- A new 317km rail link between Bulawayo, Zimbabwe, and Beitbridge, South Africa, The line was built by Beitbridge Bulawayo Railway (BBR), a consortium comprising mainly South African investors, which has a 30-year build, operate, and transfer concession from the Zimbabwean government for the \$US 85 million project.
- Spoornet, South Africa, operates the services on the line, while National Railways of Zimbabwe (NRZ) supplies the staff.
- NLL has acquired marketing rights for the “North Line,” the 470-kilometre section between Bulawayo in Zimbabwe and Victoria Falls on the Zambia border.
- The new rail link added little in way of regional capacity enhancement. Did result in a new “shortest route”

Negotiating Process

- The concession was privately negotiated
- period of thirty years, after which the railway ownership reverts to Government of Zimbabwe.
- was not awarded based upon International Competitive Bidding,
- little is known of the terms of the concession.

Exclusivity Clause

- All traffic from NRZ and points north, Zambia and DRC
 - Must be routed via BBR
 - First year 1.5 million tons
 - BR lost 1.15 million in one year
- Strong Corridor Focus
 - Transit time from Copperbelt to Durban dropped to 5-7 days
 - Has now reportedly deteriorated due to Spoornet congestion
- What capacity did BBR add?
 - Reduced transit time by ?? 10 hours??
 - Without the “shortest route” exclusivity clause would it have been a viable investment?

Extension of BBR Concession

- BBR now has “haulage” rights between Bulawayo and Livingstone connection with RSZ
- NRZ is likely incapable of providing such service
- BBR now has a de facto concession of the entire southern route in Zimbabwe.
- Without the BBR concession, would service exist between Zambia and DRC and South Africa and Botswana?

Zambia

- Objectives

- Heightening of railroad competition and, consequently, overall reduction in transport costs,;
- A significant reduction of traffic on road, particularly the long-haul and bulk traffic,
- The ZRL-linked international corridors becoming more efficient and cost effective, leading to more trade between countries along these corridors,
- ZRL becoming financially self-sustaining and being in a position to renew its assets and reward its capital providers;
- Government of the Republic of Zambia (GRZ) being able to reduce its budgetary deficit through receipt of concession fees, taxes, and hire and lease charges; and
- Zambia generating more foreign exchange through a shift of considerable transit and international traffic from mostly foreign road haulers to ZRL.

Mode of Privatization

- vertically integrated, but fragmented into geographical and business segments as follows:
 - Package A- short haul inter-mine Freight Services
 - Package B- long haul mainline freight services, encompassing the current mainline
 - A & B twenty years (20) concession with two possible extensions of five (05) years each
 - Package C - Passenger Services between Livingstone and Kitwe
 - seven (7) years with two possible extensions of two (2) years each

Main features of the concession

- the concession would include infrastructure as well as an identified number of core operating assets such as locomotives, wagons, workshop equipment, etc;
- infrastructure and core operating assets would be owned by Government or an asset holding company, but maintained and rehabilitated by the concessionaire during the period of the concession; and
- at the end of the period, the track, rolling stock, land and buildings along with the other fixed railway infrastructure will revert to the Government.

NLPI / Spornet Winning Bidders

- Fixed concession fee of US\$ 253,500,844 spread over 20 years (much of which was dependent upon profits greatly exceeding the threshold)
- plus a variable fee of 5% on turnover
- and an investment pledge of US \$64,300,000, of which \$6.1 million was initial capital investment and \$14.8 million was to be invested in the first five years..
 - This investment plan for the first five years was included in the concession contract
 - The terms are now being disputed

Labor Reform

- Employment reduced from 5882 to 3109 by year 2000
- \$19.5 million USD was provided for staff retrenchment WB
- two phases; first a reduction from 3109 to 1800,
- then a further reduction of 1000 employees to reach the design level of 800 employees

Status of Rehabilitation of Assets (per WB Dec 2005)

- 266 kms of track has been rehabilitated and another 450 kms is in progress
- 8 remanufactured engines have been ordered and 4 of them have been received
- wagons are being rehabilitated at a rate of 80 per month
- about 29 good second hand passenger coaches have been procured from the Republic of South Africa, and an additional 28 are expected by mid 2006

Rehabilitation Dispute

- RSZ agreed to invest \$14.8 million in the freight business over five years
 - investment plan called for a “1 in 4” sleeper upgrade from wooden to concrete sleepers.
 - government inspector of railways is now asserting that the “1 in 4” sleeper change outs are to be categorized as maintenance and not as capital investment.
 - Even though contained in the contract investment plan
- five year investment plan called for \$14 million and RSZ asserts it has invested \$20+ million

Passenger Service Dispute

- Three trains in each direction each week were called for initially, increasing to 7 each direction each week.
 - Three are currently operating
 - Seven can't be run due to no night time operation restriction
- train capacity and classes of service
 - Contract silent
 - Only economy class at time of concession
 - All ZRL coaches condemned at time of concession
 - RSZ acquired coaches from SA
- Service levels should have been unambiguously defined in the contract

Disputes

- 5% of turnover
 - It either has been paid or it hasn't
 - If GOZ questions the amount, then use GAAP
 - ZRL says RSZ has paid K9.5 billion in 2004; K6.8 billion in 2005 and K6.2 billion in 2006
- Lack of TAZARA cooperation
 - Does TAZARA have capacity to handle?
 - 14 locomotives of which 7 are in passenger service,
 - 5 are available for the 2000km freight run
 - Most copper is marshaled at Kapiri Mposhi
 - Thereafter moves by road
 - An apparent lack of capacity on part of TAZARA

Contract Negotiations

- termination provisions
 - Non-compliance
 - If not for cause
 - An agreed upon formula provides for repayment of unamortized capital investment and **for loss of foregone profits over the life of the concession**
 - **This can amount to millions of dollars**
 - This clause is only recently seen in concession agreements and should not have been agreed to by ZPA

Lessons Learned

- **No Enabling legislation**
- **Privatization Act only provided for disposal of the asset**
- **There was no legislation providing for ongoing operation and monitoring of the railway.**
 - To fill the regulatory void, the GIR assumed the role of regulator
 - Not independent and not disinterested
 - ZRL assumed the role of monitor, required reports not sufficiently defined.
- **A legislatively established independent regulator would have resolved many of the conflicts**

Lessons Learned

- **Areas of dispute**
- Investment obligations
 - Maintenance or investment?
- Public Service Obligations
 - Number of trains
 - Classes of service
 - Re-imbusement of cost of operation by government. RSZ disputes that it has been paid subsidy for PSO.
- Transfer of Assets
- Default and termination
 - Termination clauses containing severe penalties to the state
- Procedures for dispute resolution
 - Fees paid?
 - Reports submitted?
 - Investment plan met?

Mozambique Railway Concessions

- MOZAMBIQUE CONCESSIONING STRUCTURE
 - Five Vertically Integrated Concessions
 - Nacala
 - Beira
 - Ressano Garcia
 - Limpopo
 - Goba
 - Income Earned by GOM
 - Entry fee
 - Bid price
 - Recurring % of revenue
 - Lease payments for wagons and locomotives

Northern Corridor

- Nacala line extends from the port of Nacala to the frontier with Malawi at Entre Lagos, a distance of 610 kilometers
 - mainline from Nacala to Cuamba (totaling 533km) was rehabilitated in the late 1990's to high standards
 - Between Cuamba and Entre Lagos/Nayuci (a distance of 77km) the track is in poor condition, with 30-kg rail, and is operated with a 15km/hr speed restriction.
 - branch line from Cuamba to Linchinga is in poor disrepair
 - links the port of Nacala to Malawi

Nacala Concession

- The Mozambican and Malawian governments decided in 2000 to bundle the Malawi railway and the Nacala corridor in one concession
- Malawi Railway concessioned to the RDC consortium holding 51% and CFM holding 49%, in 1999
 - condition precedent for the concessioning of the Nacala line

Concession Process

- negotiation with a consortium consisting mainly of Mozambique Railways and SDCN which was lead by Railroad Development Corporation (RDC)
 - awarded in 2001
 - not effective until January 2005
- obstacle was the rehabilitation of the 77km stretch of line between the Malawi border and Cuamba in Mozambique
 - OPIC funding of \$29 million
 - 77km segment between Cuamba and Entre Lagos totaling \$11 million,
 - \$6 million in improvements in the port of Nacala
 - Drainage and other improvements within Malawi

Current Dispute

- CFM alleges that there has been very little investment by the concessionaire on infrastructure
- CFM alleges \$11 million from OPIC for the Cuamba to Entre Lagos section was not fully applied to that section
- CFM alleges concessionaire only added four secondhand Chinese manufactured shunting locomotives with the intention of using them in main line freight service.
- CFM alleges lease payments on rolling stock that was dry leased to the concessionaire have not been made

Change of Concessionaire

- Railroad Development Corporation (RDC) recently announced the sale of its interest in the Nacala Corridor to Mozambican investor group INSITEC
- The transfer of the concession requires government approval
- This provides an opportunity for modifications to the concession contract
 - seek those changes listed in the CRSIL study.
 - recognize that the investment in infrastructure will require government participation as traffic levels and revenues in the immediate future will not support capital investment.
 - Resolve the PSO issue as regards passenger service required by Government

Central Corridor

- The Beira line extends from the port of Beira to the frontier with Zimbabwe at Machipanda, a distance of 317 km.
 - three branchlines, which emanate from the mainline at Dondo
 - Sena (578km) which terminates near Tete
 - Mutarara and connects to Malawi at Vila Nova (39km)
 - between Inhamitanga and Marromeu (88km)
 - All the branch lines on the Beira Corridor are in disrepair and have been out of service since 1984. All are 30-kg rail, and require complete rehabilitation

Sena Rehabilitation

- 100% of the line has been de-mined
- 45% of the line rehabilitation is completed
 - 280km of the 545 km completed
- The line is being constructed to a capacity of only 6 million tons and 20 tpa
- If the coal develops as CVRD predicts the line will require upgrades to provide capacity

Winning Consortium

- Companhia Dos Caminhos De Ferro Da Beira (CCFB)
 - RITES 26%
 - Ircon 25%
 - CFM 49%

Performance Standards

- concessionaire shall achieve recognized international performance norms for railway services
 - Failure to achieve such will result in financial penalties to be drawn from the Performance Security for Maintenance
 - WB, CCFB and the Borrower have agreed on Project Development Objectives, outcomes & end of project results

Other Corridors

- Limpopo Railway
 - 520 km in length, 45-kg rail and roughly follows the route of the Limpopo River.
 - Rebuilt in 2000 - 2004
 - Traffic is international to /from Zimbabwe
 - Now less than 300,000 tons
 - Future not bright
 - Unlikely to attract a concessionaire
 - No prospects to operate profitably

Other Corridors

- Ressano Garcia
 - Earlier concession failed to materialize
 - CFM has now decided to rehab and operate
 - 88 km
 - 35,000 concrete sleepers
 - 2,000 wooden
 - 53 new switches
 - 920 joints welded
 - Expected tonnage 9 million

Tanzania

- Two Railways TRC and TAZARA
 - Tanzania Railways Corporation (TRC) is the 1000 mm gauge system that connects with railways in Kenya and Uganda.
 - two main lines totaling 2600 km
 - Central line runs from Dar es Salaam to Tabora (850 km) and from there one line to Kigoma (453 km) and another to Mwanza (386 km).
 - Tanga to Moshi and Arusha with a total length of 430 km
 - three branch lines ie Kilosa Kidatu – 102km; Kaliua Mpanda – 212 km and Manyoni Singida – 115 km

Concession Process

- Process began in 1997
- Completed 2007
 - In the interim
 - No investment In rolling stock
 - No investment in infrastructure
 - Employee uncertainty lead to decline in morale
 - Last three years in particular

Scope of Concession

- 25 years
- Vertically Integrated
- No Open Access
 - One pre-existing legacy access allowed for 5 years
- Rites successful bidder
 - Rites 51%
 - Government 49%
 - Operates as Tanzania Railways Limited TRL

Regulatory Reform

- Enacted 2004
- enabling legislation provided for the establishment of the Reli Asset Holding Company (RAHCO)
 - responsible for infrastructure development
- Surface and Marine Transport Regulatory Authority (SUMATRA)
 - economic and safety regulator of rail transport
 - monitor service standards of rail transport, monitor and prevent abuse of monopoly position in the railway transport sector, conduct investigations in relation to quality of service, investigate accidents and incidents prejudicial to safety, approve new rail infrastructure, etc.

Regulatory Reform

- TRL will operate the railway at its own cost and pay concession fees to RAHCO
- RAHCO shall be responsible for monitoring the concession agreement, including service levels, investment levels
- RAHCO focus
 - vehicle type, load factor, vehicle availability, track availability and infrastructure investment

Rehabilitation of Assets

- RAHCO will fund rehabilitation of the majority of the concession's 2600 km railway line. The concessionaire will be responsible in the first five years to rehabilitate 648 km
- concession requires an investment of \$84 million USD in the first five years of operation
 - Equity \$16m
 - IFC loan \$44m
 - World Bank loan of \$33m
 - \$8 million to prevent further deterioration
 - \$25 million for infrastructure or rolling stock

Malawi

- Central East African Railways Company Ltd.
 - operates 710 km of single line track
- new company began December 1, 1999.
- Railway Act of 1907 was the governing law
 - posed no barrier to the concessioning
 - concession moved ahead without the proper and recommended regulatory climate
- No Regulatory Legislation

Winning Consortium

- RDC and Edlow Resources own 51%
 - Participate in ownership of several railways
- CFM owns 49%
 - Same consortium was to have been awarded Nacala
 - Not accomplished until January 2005

Concession Terms

- a period of 20 years
- purchase locomotives and rolling stock
- buildings, track, bridges, and other fixed infrastructure remain the property of the Government of Malawi.
 - 5% of gross revenues (with a minimum of \$0.5 million per annum)
 - \$0.5 million initial payment
 - \$0.9 million per annum for 5 years for purchase of the rolling stock (18 locomotives & 410 wagons).

Concession Terms

- Open Access
- Annual Report
- Passenger service required for five years, thereafter PSO
 - PSO negotiations stalemated
 - Service cut back
- Force Majeure clause unclear
 - RiviRivi bridge dispute

Performance

- Annual tonnage has fallen from 500k to 240k
- Has never had positive operating income
- Passenger service cut back
- No new equipment added
- Very little in way of infrastructure investment
- Allegedly not current with rolling stock lease payments to CFM

Contract

- Without Regulator all terms covered by contract
 - Many amendments made to DCA to account for what should have been a regulatory function
 - Much of the language was not clear
 - Recent studies have recommended at least 30 clauses of the concession be revised
 - What is basis for re-negotiation?
 - RDC interests in CDN and CEAR have been sold. Will this provide the opportunity for some contract changes?

Steps Going Forward

- Pass legislation establishing Railway Authority
- Appoint independent and disinterested Regulator
- Resolve PSO passenger disputes
 - Government to pay for passenger service it requests
- Where possible renegotiate contracts made in absence of a Railway Regulator
- In any future concessions follow the Model Freight and Passenger Guidelines
- Realistically determine if business levels will support capital investment
- Consider the Tanzania concession as a model, i.e. RAHCO