

APPENDIX 9:
ABIDJAN-OUAGADOUGOU RAILWAY CONCESSION

Appendix 9: Abidjan-Ouagadougou Railway Concession

9.1 Background

1. The first railway concession awarded in West Africa was for the 1,180-km single track meter gauge Abidjan-Ouagadougou Railway constructed between 1905 and 1954 connecting the port of Abidjan in Côte d'Ivoire with Ouagadougou, the capital of Burkina Faso, extending to Kaya (see Figure 9.1). Sitarail, the concessionaire, was set up in an attempt to reverse the decline of the railways, after more than half a century of state management and operation.¹

2. 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 (the Abidjan-Niger Railway Authority -RAN, jointly owned by Côte d'Ivoire and Burkina Faso (then Upper Volta). RAN was operated successfully and was financially viable during the 1970s.² In 1978, traffic reached its apogee with transportation of 900,000 tons of freight and more than 4 million passengers. Due to the economic crises that hit both Côte d'Ivoire and Burkina Faso, decline of the railway traffic started in 1979. This period was also characterized by significant new road construction resulting in competition for rail transport. Railway income fell steadily and RAN, with its 5,200 employees could not adapt to the situation.

Figure 9.1: Abidjan-Ouagadougou Railway



3. 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. In 1993, only 250,000 tons were carried on the route and 75 percent of income generated was absorbed by employee wages. The financial situation of SICF and SCFB deteriorated rapidly. The debt owed by the Abidjan-Ouagadougou railway reached a critical level of ECU 150 million. It was an untenable situation, and neither state had the resources to make the investments required to keep the two railways operating efficiently.

9.2 Private Participation in Railway Management and Operation

4. **Concessioning.** In July 1992, the Governments of Côte d'Ivoire and Burkina Faso 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

¹ Abdel Aziz Thiam; *Abidjan-Ouagadougou The story of a Railway Concession*.

² Brigitta Mitchell and Karim-Jacques Budin *The Abidjan-Ouagadougou Railway Concession*; World Bank, <http://www.worldbank.org/afr/findings/english/find140.htm>

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 Ivorian investment group (SICC), Maersk (an international shipping line), railway engineering consultants Sofrerail and Transurb-consult — held 51 percent of Sitarail's equity. Other Sitarail shareholders are the governments of Côte d'Ivoire and Burkina (15 percent each) and Sitarail staff (3 percent). The shares of the two governments and employees are now maintained, while the remaining 67 percent is owned by the companies associated with the French Bolloré Group, which also holds the container terminal concession in the Port of Abidjan.

5. **Ownership of Infrastructure and Rolling Stock.** The ownership of infrastructure and rolling stock has been retained by the two governments. Two state-owned railway landlord corporations, the *Société Ivoirienne de Patrimoine Ferroviaire* (SIPF) and the *Société de Gestion du Patrimoine Ferroviaire du Burkina* (SOPAFER) have been created. They administer railway infrastructure on behalf of the states. 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.

6. **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.

7. **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 SCIB fleets. Sitarail leases this equipment from the two rail landlord corporations who own it (affermage). 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.

8. **Infrastructure investment program.** 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.

9. **Scope of the Concession and Regulatory Framework.** 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.

10. 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 (except domestic oil rates in the Ivory Coast, which are regulated by the Government), 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.

11. 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.

12. 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).

13. **Duration of the concession.** The concession is a "rolling concession" with an initial duration of 15 years. At the end of the first 5-year period, and in 5-year intervals thereafter, the concession can be extended by mutual agreement for additional 5-year periods, thus preserving the 15-year concession horizon over time.

14. **Concession fee.** Sitarail pays to the rail landlord corporations (representing the governments) a concession fee composed of three parts: (a) a usage fee; (b) the rental fee for rail equipment leased by the landlord corporations to Sitarail; and (c) the debt service on credits and loans subscribed by the states or the landlord corporations for rehabilitation investments. The "usage fee" is negotiated between the governments and Sitarail every three years. For the first three years, the usage fee was 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 at an annual payment of US\$2 million (indexed to inflation) for years 4 to 14.

15. **Staff.** 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 was 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.

16. **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.

17. Sitarail began operations in August 1995, amidst serious problems of rolling stock obsolescence and network deficiencies requiring heavy financial investment. A total of ECU 59 million was needed to rehabilitate existing, and acquire new rolling stock and to improve and renew the fixed infrastructure. This investment was shared by Cote d'Ivoire - ECU 26 million, Burkina Faso - ECU 19 million and Sitarail - ECU 13 million.

9.3 Operations by Sitarail

18. **Operational Results.** Sitarail increased its haulage capacity by buying new rolling stock, implemented an emergency investment program that enabled some sections of track to be renewed, and also reduced its workforce by 40 percent. During the first year of operation, it carried 410,000 passengers and 485,000 tons of freight (an average of 110 trains a month), which increased in the second financial year to 444,000 passengers and 744,109 tons of goods (a monthly average of 140 trains). In 2001, traffic carried was 806,145 tons and 537.65 million net

ton-km (which was more than double of 230 million ton-km in 1994-1995, the last full year of operation by SICF and SCFB). The turnover in the same year was EUR26.78 million. The 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 between Abidjan and Ouagadougou, which has reasonable prospects for financial profitability. In 2001, Sitarail carried 243,041 passengers and 93.01 million passenger-km. In September 2002 the traffic substantially declined following the outbreak of civil war in Ivory Coast and the border was closed. This hardship remained until May 2003. The border closed again in November 2004 when fighting broke out.

9.4 Economic Impact of the Railway

19. The operational experience of the Abidjan-Ouagadougou Railway offers an encouraging example. After nearly 20 years of decline, the Abidjan-Ouagadougou railway is enjoying a new lease of life. Sitarail succeeded in breathing fresh life into the rail network. This has helped to revitalize the economies of the two countries. Some of the specific impacts are as follows:

- Sitarail has paid a wage bill of more than ECU 8.5 million every year, which was pumped into the local economies.
- It has settled its taxes and repaid outstanding debts.
- The railway renaissance has boosted the support enterprises that specialize in repairing rolling stock. More of these have been set up and they are increasingly diversifying into other specialized aspects of railway activity such as overhauling of locomotives and lifting gear. Their expertise has also been extended in areas such as accountancy, tax administration, and training.
- In Abidjan, the main centre of activity, and in Ouagadougou, a number of medium-sized enterprises, many set up by former agents laid off by the railways, have become involved in subcontracted works such as scrub clearing on the line, level crossing manning and providing personnel for other railway operations. Other enterprises, both local and foreign, have been given the task of restoring railway installations.
- Overall, some 200 companies, with an annual turnover of almost ECU 3 million, in both countries, are involved in the railway business. Other than highly specialized replacement parts, that can only be procured abroad, Sitarail obtains its supplies (in the total value of ECU 4.6 million) locally from contractors selected by tender.

20. The success of the Abidjan-Ouagadougou Railway is a source of inspiration for other African states for encouraging private participation in their railway systems.

9.5 Lessons Learned

21. The first railway concession in Sub-Saharan Africa has provided lessons that are summarized in the paragraphs below.

22. **Bidding and selection process.** In order to strengthen competition it is important to widen the effort to find potential operators. It will be beneficial to detail the future "rules of the game" of the concession (notably through the draft concession agreement) before requesting bids. This would help in shortening 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 is also helpful to sort out implementation details for effective take-over of operations by the concessionaire. The 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.

23. **Investment financing scheme.** The concessionaire defines the investment program and bears its cost through debt service, 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 two states. The financing scheme was a good compromise in the prevailing investor risk context in Côte d'Ivoire and Burkina Faso.

24. **Railway landlord corporations.** The formula of railway landlord corporations followed arrangements used in other sectors. In the first year of the concession there were misunderstandings and conflicts between the corporations and the concessionaire about their respective attributions. These conflicts seriously delayed the implementation of the rehabilitation investment program. Experience indicates that involving railway landlord corporations may result in difficulties in implementing the investment programs agreed under the concession agreement.