International Cooperation & Sub-Saharan Railways

Jeremiah K. Musuva

Introduction

There are about 20 Sub-Saharan African Railways (SSARs), including Kenya Railways (KR), all of which were built at the turn of the century as access routes from the seaports to the hinterland to tap the abundant mineral wealth or to provide basic transport for the ease of governing the 'new' colonies. The road network has now taken over these roles but most of the SSARs are still very important to their national economies in offering freight and passenger services within the national borders and to neighbouring landlocked countries.

Before the development of the roads, SSAR managers were overcomplacent about an elastic traffic base where the only constraints to the expansion of haulage capacity, were infrastructure design, motive power, rolling stock availability, and reliability. When the governments worldwide started demanding accountability, operational efficiency and tangible returns from railway investment, most railways in developed countries were easily able to adapt to the new requirement, but the cost of the investments required to 'commercialize' operations was beyond the capacity of the SSARs and they declined rapidly. Some governments in Sub-Saharan Africa (SSA) realized that railways were no longer critical to national transport, and withdrew most support in favour of roads, forcing some railways to close and several others to scale down operations.

General Problems

This realization stimulated the Union of African Railways (UAR) to discuss the future of the SSARs' changed operational environment at the 23rd General Assembly in Lusaka, Zambia in late 1994. The following problems were identified.

Government involvement: Some problems can be traced to the 1960s when governments decided to nationalize the SSARs so as to play a more conspicuous role in their day-to-day operation, short- and long-term planning, and business regulation. At nationalization, the SSARs were already declining due to the emerging road competition and they were consolidating their achievements or re-defining their role in the transport market. They could not easily sustain such a drastic destabilizing change.

Unfair road competition: The road haulage companies were quick to exploit the governments' inexperience in operating railways. The governments had an insatiable thirst for opening roads to every corner of the countries—some even run parallel to railway lines—at no cost to the road haulage companies and placed no restrictions on road traffic. Consequently, by the early 1980s, roads were the ideal transport mode, relegating most SSARs to secondary status, even for traditional railway traffic. Moreover, most SSA governments now appear to favour road transport as demonstrated by fuel levies on most SSARs for road maintenance, and by less support for railways than before.

Obsolete system: The SSARs' infrastructures have been allowed to stagnate since they were first built with little investment for development or expansion. Despite the recent completion of conversion to diesel motive power, the constraints imposed by poor infrastructure have made it difficult to reap the full benefits of this change. Compared to the automobile, they have retained the serious drawbacks of low speeds (for passenger traffic), restricted route coverage and inflexible service. Some SSARs, especially those like KR, that rely on mixed general traffic, risk being considered an inappropriate transport mode.

The general message following the discussions was that the SSARs must immediately achieve fully-commercial operations or perish.

UAR Recommendations

The following points were recognized.

- The transport market has been liberalized in all SSA countries and is now based on competition, especially with roads. Therefore, the SSARs must become accountable to customers, which is only possible in a commercialized railway.
- Commercialization should be carried out cautiously to ensure that the railways are run professionally so as to uphold the strengths of safety, reliability and predictability.
- Achievement of full commercialization is difficult, requiring initiative and commitment by government and management during the interim period. Management must feel sufficiently confident to initiate development through careful internal evaluation and analysis of projects, and both management and staff must be committed to success.
- The role of railways in the transport market must be re-defined to permit competition with roads on an equal footing and to enable the railways to play a meaningful role in the national economies.

As a result of the above constraints, the following problems requiring immediate solutions were identified.

- Poor relationship with governments
- Lack of profitability arising from government-controlled fares and tariffs
- Lack of sophisticated managerial and technical skills
- Reduced earnings resulting from inability to maintain and renew equipment, and develop infrastructure, leading to acute shortage of locomotives and rolling stock, and poor infrastructure

Options for Commercializing SSARs

The SSARs' managements have no doubt that they must commercialize operations, but the extent of commercialization has yet to be agreed, along with how it can be achieved without deepening the problems. Some options are analyzed below.

Privatization of entire system

One advantage of privatizing the whole system is that the railways would remain solely owned. The SSARs feel that the systems have a better chance of survival if operated as one technical and commercial unit. But total privatization is unsuitable in Africa due to several disadvantages.

Most SSARs, including KR, are state owned and they are regarded as tools for national development. However, the governments feel that they must retain absolute control of the railways to be able to respond at short notice to emergencies, which have occurred fairly frequently in the past. No doubt, privatized railways could reach some agreement with governments concerning emergencies, but the local private sector has not yet reached the required level of sophistication in technology, commerce and organization to purchase and run such a large organization; a foreign buyer might not be sufficiently sensitive to local conditions and might not come to an agreement with governments on use in an emergency.

Other considerations that also militate against outright purchase are as follows:

- The business scales of most SSARs are too small to attract premium foreign investors.
- Foreign investors regard investment in SSA countries as risky and also expect a quick return (less than 5 years) on their investment, which none of the railways could achieve.
- The SSARs would require a huge upfront injection of capital, making them unattractive to investors.

Privatization of selected core activities

Railway operations generally have four core activities: marketing, operations, maintenance, and finance. KR is progressively contracting out rolling-stock maintenance; the other three areas are regarded as the company's long-term bread and butter.

At present, KR's equipment and infrastructure maintenance problems are shrinking its haulage capacity. Various internal and external solutions have been applied with little success. The root cause is lack of capacity which was exacerbated by stringent foreign-exchange controls, but is now mainly due to lack of hard currency.

Contracting out all maintenance to the private sector has been considered as a possible solution. Suitable quality control measures would be required to guarantee performance and quality.

Some financial bodies working with developing countries would like to apply this method to the SSARs on an experimental basis and some railways in developed countries have adopted this approach, but it is too early to judge its success or otherwise. Meanwhile, the following doubts about the real benefits of this method have been expressed at several international forums.

- Inflexibility in responding quickly to customers' demands, particularly for new or additional equipment
- Problems in restoring normalcy if the maintenance contracts failed for any reason, especially if the railways' own maintenance organizations had been dismantled
- Higher expense because maintenance fees are often independent of changes in business demand

Despite these doubts, KR believes that running contracts for maintenance (paid monthly in advance) are most efficient in providing reliable equipment, and it is proceeding on an experimental basis, while addressing shortcomings as they occur.

Kenya Railway freight train *(S. Kuroda)*

KR's Solutions

Each SSAR has developed its own approach to these problems. KR has received International Development Association (IDA) credits via the Kenyan government to address several problems arising during commercialization of its operations. The following areas are being addressed.

Relationship with government

KR recognizes the immediate need to redefine its relationship with the government and to conclude an agreement identifying the obligations of each party. The details have already been discussed and are awaiting government approval. They are generally aimed at addressing pertinent issues including:

- Rescheduling KR debt
- Improving corporate governance, aimed at transferring total responsibility for running the railways to the Board of Directors and management without impediments
- Compensating KR for operating unprofitable lines for social reasons (including passenger trains and branch lines)
- Setting the performance level to be achieved by KR

Of course, it would be counterproductive for KR to attempt to sanction the government for not honouring its obligations. It is more important to agree a broad framework for the future relationship rather than the contractual details. The main purpose of the contract will be to serve as a medium for discussion to bridge the communication gap and to enable the railway management to keep fully abreast of the government's policy towards the transport sector. The agreement will not be regarded as a legal contract by the railway, but only as an agreement on certain mutual understandings. To this end, KR will establish a safety net against government failure to honour obligations in a timely manner. KR faces a severe cash flow crisis making it unable to service its debts as they fall due and to repay arrears in full. The debt now stands at Ks10.3 billion (about US$200 million) of which at least 60% is due to the recent heavy devaluation of the Kenyan shilling. Advice on financial restructuring was funded by UK Overseas Development Assistance (ODA) in 1995, which recommended the following specific proposals to the government.

- Conversion of outstanding debt (including interest) to equity
- Injection of equity capital into KR to strengthen its equity base and support working capital requirements
- Closure/rationalization of unprofitable passenger and freight services that continue to distort KR cash flow

Compensation for social obligations

In 1995, KR sponsored a study to identify its commercial scenario; the findings are as follows:

- Most freight services are profitable.
- All passenger services except those between Nairobi and Mombasa are unprofitable and require government compensation.
- Ferry services on the Kenyan side of Lake Victoria are unprofitable and should be sold to private operators.
- Only two out of seven branch lines are profitable. The rest require government compensation.
- 95% of KR business originates and terminates at 23 stations—the rest should be closed.
- The optimum commercial manpower level is 14,500 compared to the 19,000 employees in 1995. A retrenchment programme was recommended to reduce the level.

Lack of sophisticated managerial and technical skills

Commercialization of KR requires new management skills that are still being locally developed. Most commercial enterprises in Kenya are small and informal in nature and although KR is small by world standards, it is rated as a giant in Kenya. The capacity to manage such a relatively large and complex organization

Zebras in station area *(S. Kuroda)*

and the need to develop sophisticated management skills has been recognized and is being addressed. Added to this, the fast change of pace in railway maintenance technology demands skills that the present administration can hardly afford to sustain. KR is addressing this problem by private-sector participation in some of its operations for technical and rank-and-file skills.

To develop managerial skills, KR has established both local and overseas training programmes for all managers. The local programme has been completely implemented by a series of Management of Change Workshops; the overseas programme for department heads and their assistants is still progressing as suitable courses are identified.

Maintenance and renewal of equipment

This is probably the greatest challenge now facing SSARs' managers, including those at KR. The equipment condition has deteriorated due to deferred maintenance caused by lack of sustained funding. KR is resolving this problem by private-sector participation in maintenance, and by leasing ten 2600-hp locomotives complete with maintenance from Spoornet of Johannesburg. It has also recently signed a rehabilitation contract with General Electric Company USA to upgrade its fleet of 35 mainline locomotives.

Information technology constraints

To become competitive and to improve the quality of customer service, KR has installed RAIL TRACKER, an information technology (IT) system to track down wagons, made available to several SSARs by the United Nations Conference on Trade and Development (UNCTAD) and the EU. Operation is currently constrained by lack of good point-to-point communications; solutions are on the drawing board but require external assistance. Work has commenced on updating KR information systems, including installing equipment and training staff. Computerization of all operations and documentation should be finalized within 2 years.

KR Progress with Restructuring

While discussions are in progress with the government, KR is already addressing the more immediate requirements. Some achievements so far are described below.

Divestiture of non-core activities: Catering and cleaning, shipping, ballast crushing, and operation of the Railway Museum have been, or are being, divested. Several catering facilities have been leased to former employees and appear to be doing well. The options for divesting shipping are being explored.

Staff retrenchment: A 1995 study proposed a systematic retrenchment programme to shed at least 4500 staff in various categories from the 1995 level of 19,000. By 31 March 1997 the manpower level had been reduced to 14,772 at a cost of about Ks672 million (about US$12 million) raised from sale of land assets. A further job appraisal will produce a new organizational structure, job descriptions, skills profile and grading structure, intended for immediate implementation.

Separation of passenger and freight accounts: Transparency in accounting will facilitate compensation from the government for unprofitable social rail services.

Draft performance contract: This defined the roles and responsibilities of both the government and KR in pursuit of agreed objectives. KR's proposed objectives for commercially non-viable business, and/or public service obligations, are to maximize revenue, minimize operating costs, and maintain an agreed level of service.

Private sector participation

Many railways around the world have adopted private-sector participation, and KR has found it attractive due to a shortage of external funds. Maintenance and rehabilitation of rolling stock, and marketing of rail services have been contracted out to bridge the gap until more substantial support can be marshalled.

Day-to-day railway operations remain in the hands of KR, but management can contract out specific functions that can best be performed by the private sector. KR has also applied this concept in a limited manner to cleaning of passenger coaches, and customer ownership of freight wagons. Track-usage rights have also been leased to operators of private trains.

Human Factors

Staff retrenchment

The SSARs recognize that any method of commercialization will create difficult human problems. Reduction in manning levels inevitably leads to redundancies and attendant social upheaval. KR's experience so far shows that adverse effects can be minimized by taking the following measures.

- Involving trade unions in all stages of manpower reductions particularly where this includes retrenchment
- Making full use of softer options including voluntary retirement, natural wastage and compulsory early retirement due to poor performance, combined with limited recruitment

Manpower reductions by redundancy have not yielded quick results, mainly due to problems related to labour laws and agreements on redundancy payments.

Training

In the commercialization process, training is as important in the customer services field for lower rank staff as in the technical field. KR has recently completed a training programme on customer skills for 13,000 staff and is progressing with management training.

International Cooperation

Most SSARs cross national borders and since railways are most profitable over long distances, cross-border cooperation is very important. KR is connected to Uganda Railways Corporation (UR) and Tanzanian Railways Corporation (TR) with which it shares common technical specifications. The main areas of cooperation include:

- Tariff setting for ease of customer service
- Train operations with representatives of each railway in the other two railways
- Technical specifications to ensure the interchangeability of equipment and communication

Extensive cooperation in these areas between KR and UR started in 1995 and resulted in a steep rise of cross-border freight traffic from 10% to 40%.

Further afield, KR is cooperating with international organizations on exchange of technical and other general railway information. It is an active member of UIC, UAR and the East African Railways association.

KR has close cooperation with the World Bank and the ODA of the UK which have been main sources of assistance for development projects. Both organizations are sponsoring various studies to support KR's commercialization programme. Although there has been no major new project for the past 6 years sponsored by these two organizations, it is hoped that there will soon be discussions on projects recently identified by KR.

KR has also benefited over the years from bilateral government agreements. The most recent are sourcing of track maintenance and inspection equipment (France 1996), and training for a manager through Japan International Cooperation Agency (JICA). In 1993, Japan sponsored a study workshop on rationalizing maintenance of locomotives and rolling stock at the KR Central Workshops. This study formed the basis of some of the restructuring now in progress. KR is thankful for the support so far and is keen to maintain a good relationship with its various bilateral and multilateral supporters.

KR has taken note of the demands from its supporters for efficiency, transparency and accountability as a condition for future assistance and is taking the necessary restructuring measures.

The SSARs, including KR, are at crucial stage in their development and require constructive material and moral support, rather than too-frequent criticism. Joint effort towards turning the SSARs around will benefit both the SSA and developed countries.

Conclusions

From the experience gained by the SSARs in general and KR in particular, it is apparent that:

- The SSARs must strive to achieve full commercialization through extensive restructuring to make them viable within the shortest possible time. Their traditional supporters, including their governments, are also demanding high-quality performance as a condition for future support.
- The commercialization methods should take into account local conditions. Private-sector participation is presently seen as the best way to phase-in full commercialization.
- SSAR managers must recognize the need to evolve home-grown solutions to achieve full commercialization.
- The SSARs recognize the role played so far by their supporters and are keen to maintain a good relationship with them, as well as to attract new supporters.

KR recognizes that its efforts to commercialize its operation are at an experimental stage and we welcome ideas and general support to achieve our objectives as soon as possible. ■

Jeremiah K. Musuva

Professor Musuva is Chairman of Kenya Railways, UIC Vice President, and Chairman of the UIC World Executive Council. He obtained his doctorate in mechanical engineering from the University of London and held the position of Professor of Mechanical Engineering at the University of Nairobi.