PANEL DISCUSSION: Attracting investment for improved services via railways concessions & privatization

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Proper structure must reflect both the external environment of the concession—its physical condition, and more importantly its markets and the competition for those markets—and the structure of the concessionaire itself. Typically the core of this involves a substantial investment of both financial equity and the "sweat equity" involved in not only researching and competing for the concession but also negotiating the details of this most complex of businesses. In the case of RDC, to the extent that we ultimately succeed in structuring a concession it will involve, in descending order of priority, (1) a serious government, (2) rational competition among bidders, and (3) substantial local partners with complementary skills. To the extent that these conditions are satisfied, the result of the consortium is most likely to be in a position to succeed in what is sure to be an environment from different from whatever business plan might have been originally contemplated. For this reason, our philosophy is that we prefer to be in a bad business with good partners than a good business with bad partners.

Having satisfied the above conditions, a common scenario is nonetheless a railway with worse deterioration and less financing than originally contemplated. Deterioration of railways is often a direct result in lack of investment and to rehabilitate the railway to a level that it can compete with road haulers will require large injections of funds; these investment decisions, be it locos, cars or track are 30-year decisions and when determining the length of a concession the period required to recover cost of investment must be borne in mind.

For the above reasons, improvement of the economics and performance of state railways in Africa point squarely to private sector management despite the unsurprising positions of many such enterprises that private sector interests will, among other things, result in a short-term focus and a disregard for safety. The reasons for this are quite simple—if structured properly, and the private sector truly has capital at risk, the proper incentives will be imbedded in the company for the long-term.

At last year's conference one state railway's manifesto was that "a bad private monopoly is worse than a good state monopoly." A fairer question is whether "a good private monopoly is

better than a good state monopoly" (A separate question for some other forum will be to identify where in Africa railway monopolies still exist given pervasive truck competition.). I would argue the appropriate response is "of course" for the simple reasons of economic motivation; a private company is more likely to be motivated to respond to the prime reason for railways' existence, which is to respond to customer demand, as opposed to other considerations such as the maximization of staffing levels or the provision of social services such as passenger service.

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