Public-Private Partnership on Rail Transport Infrastructure

FADIAH ACHMADI
(fadiah.achmadi@fimotions.com)

UN-OHRLLS Training on Strengthening Capacity in Developing Bankable Transport Infrastructure Projects for Enhanced Connectivity
May 18-20, 2021

Potential advantages of rail transport

- Lower tariffs → ideal to transport high volumes of low-value bulk goods
- Shorter and more reliable transit times than road due to fewer stops
- Fewer en-route delays compared to road transport
- Rail freight is resilient during the **COVID-19 pandemic**
- More energy efficient than road/air transport
- High speed lines can substitute air transport
- Safer transport of dangerous goods and better protection against theft

Efficient rail transport can be an important catalyst for economic growth and development

History of Railway PPP

- In 19th century, railways across Europe and in the US were developed in view of the industrial revolution to serve dedicated, heavy haul end users (e.g. mining & heavy industry) → a mixture of private & public initiatives
- Railways PPPs have been implemented in emerging markets to:
  - Rehabilitate and rejuvenate existing freight and passenger rail operations
  - Finance greenfield rail lines
  - Finance "above rail" investment (rolling stock) and/or "below rail" operations (rail track)
  - Redevelop railway stations and adjoining real estate
  - Operate and maintain railway infrastructure

Rail Concession

- According to **PPP Knowledge Lab,** Rail PPPs typically operate within a concession framework, through which:
  - A private partner is granted permission to rehabilitate/build/operate a railway and collect revenues for a fixed period of time
  - Concessionaires use the revenue to pay off debts, concession fees, maintenance and operation
- PPP in railways can bring opportunities for investment, operating efficiency, and modern/clean technology
- Rail concessions are effective to increase private sector participation and to reduce financial burden on Government
- An appropriate reform of national and regional regulatory frameworks is necessary to create an enabling environment for private companies to invest in large-scale infrastructure projects in LLDCs

Rail PPP Models

In general, based on what aspect of railway is being financed, rail concessions can be categorized as:

1. Private monopolistic vertically integrated railways

   Infrastructure is owned, built & maintained by a single operator that has the most time exclusive use

   → In China, Shenhua Group (a mining company) finances railway lines to transport its mining products, owns and operates nine coal hauling railway lines.

2. Privately shared use vertically integrated railways

   → Similar to 1), but the operator has obligations to share the infrastructure with 3rd party users

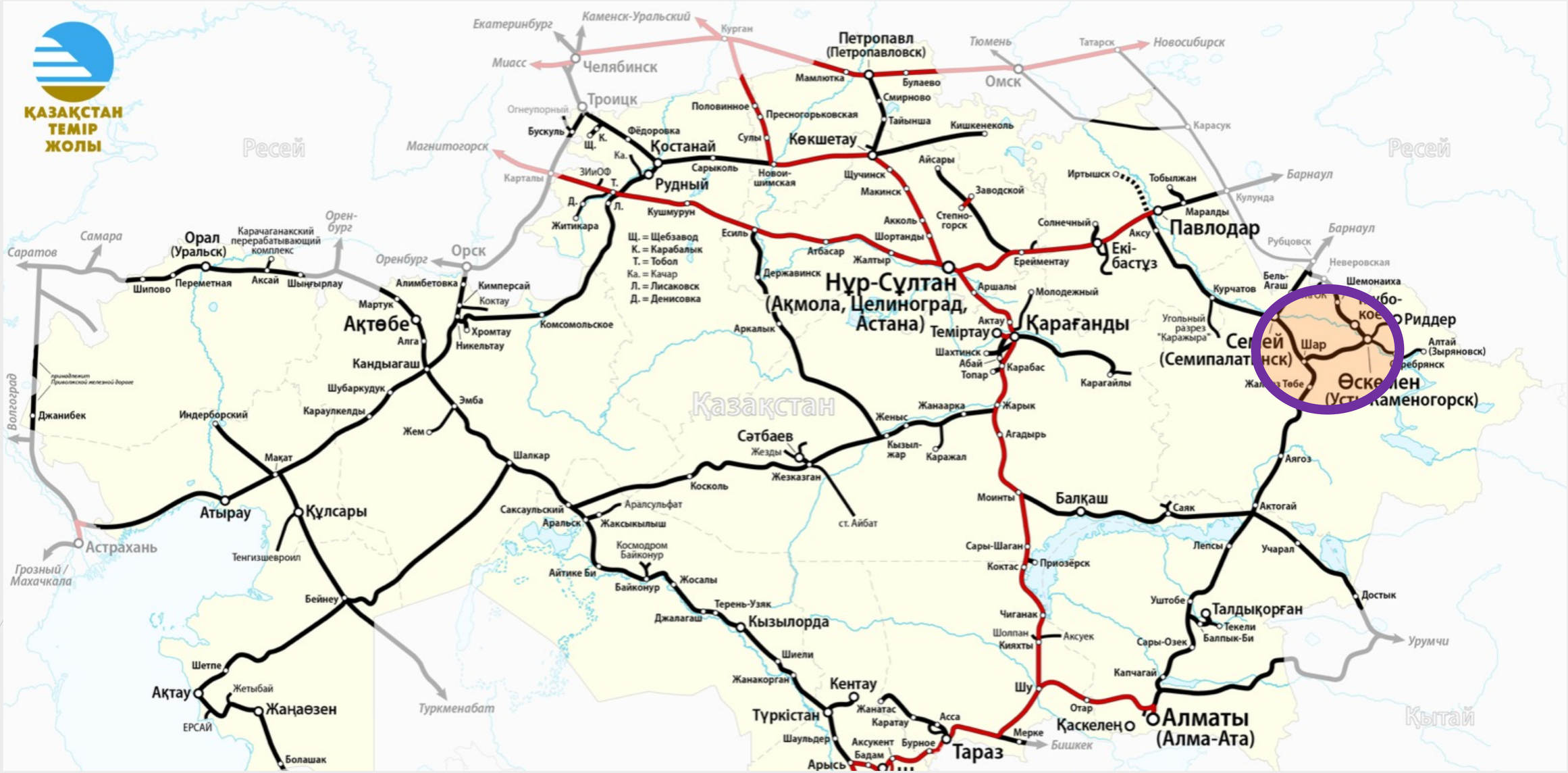
3. Below rail service providers

   → Rail operator provides rail infrastructure to rolling stock operators

4. Above rail service providers

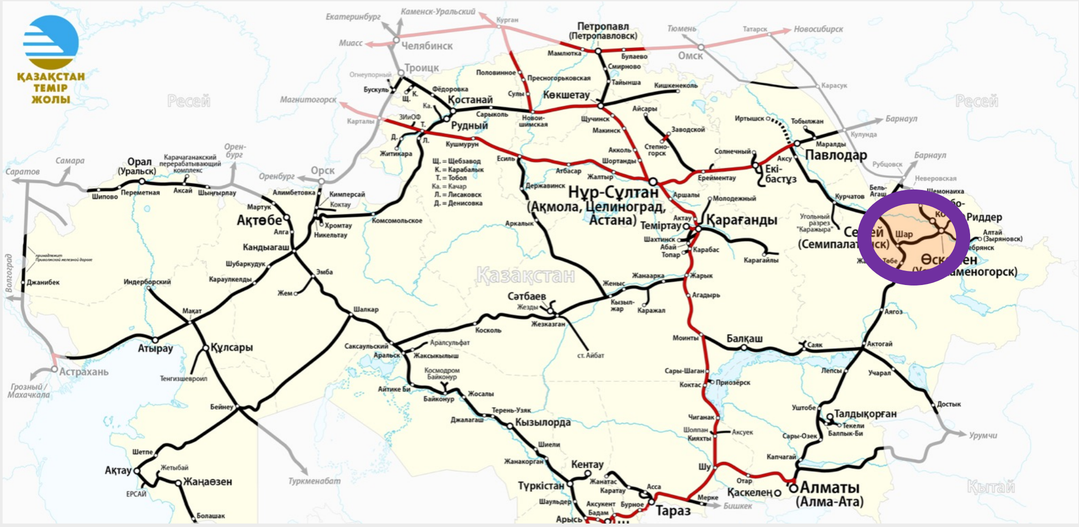
   → Operator provides rail transport services using infrastructure it does not own

Case study: Shar – Oskemen Railway (Kazakhstan)



Case study: Shar - Oskemen Railway (Kazakhstan)

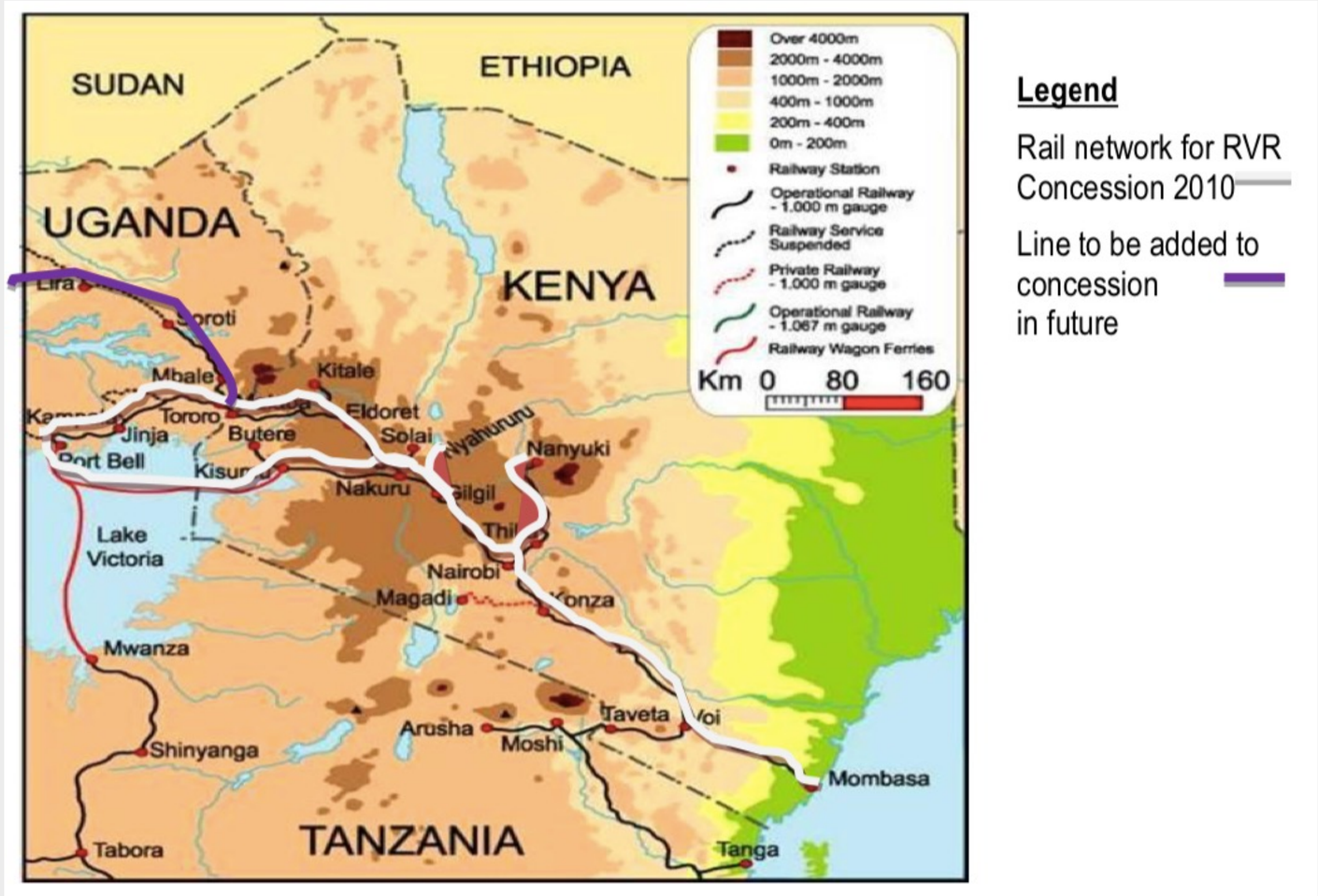
- Construction began in 2005
- Length: 151 km
- Passenger and freight traffic bypassing Russian territory
- In operation since 2009 under a BOT (Build-Operate-Transfer) concession
- The first concession in Kazakhstan
- The PPP contract with the Ministry of Transport and Communication



- A company “Doszhan Temir Zholy” was established in March 2005 to implement the construction and to operate the concession. It is owned by the national railroad company (46%) and the Investment Fund of Kazakhstan (49%)
- The PPP generates sufficient passenger traffic to provide a return to the investors

Case study: Kenya – Uganda Railway (concession terminated)

- 2,350 km rail line, linking Mombasa Port and Kampala
- The oldest and most important rail link in East Africa



Case study: Kenya – Uganda Railway (concession terminated)

- 2006: Kenyan & Ugandan Governments granted concession to Rift Valley Railways (RVR).
- The States remained the **asset owner**
- Concessionaire to rehabilitate, operate and maintain the rail networks as one railway system
- 2017: both Governments terminated the 25-year concession contract, due to RVR's **failure to meet set operating targets** and payment of concession fees
- This could suggest that the approach of the concessionaire was ill conceived.
- Concession grantors should be critical in reviewing the business case presented by bidders during the bidding competition, and taking the bidders' critical requirements into account at the same time.

Key takeaways

- Succesful PPPs are structured so that private sector receives financial return by accomplishing the objectives of the public sector
- PPP must generate value for both public and private sectors to be sustainable
- Public sector may benefit from private sector's financial capacity and technological knowhow
- Private sector may benefit from public sector's asset and ability to manage certain risks
- PPPs work best when outputs can be clearly specified and monitored

Thank you for listening.