Review

Boosting Railway System Infrastructure in Nigeria: The Public-Private Partnership Option

Agbaeze E. K.¹ and Onwuka, I. O.²

¹Department of Management, University of Nigeria, Enugu Campus, Nigeria.
²Department of Banking and Finance, University of Nigeria, Enugu Campus, Nigeria.

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Rail transportation has continued to play a key role in the movement of goods and passengers in many countries of the world. But in Nigeria, the story is different. Many years of neglect, technical problems, underfunding, government interference with management, inconsistent government policy, falling rolling stocks levels, worn-out and obsolete infrastructure has left a once vibrant sector in a comatose state. The cost of this neglect has been high in terms of growing cost of road transport services, frequent road collapse, and unprecedented carnage on our roads. Although, the government has risen to the challenge in recent times, what may ultimately be required to resuscitate the railway system in terms of funding, investment and expertise is far beyond the financial and managerial profile of the government. There is therefore, the urgent need for private sector participation. The paper strongly advocate for public-private partnership option which has been adopted with success in many countries, as panacea for revitalizing the railway system to enable it play its key development role in the economy of Nigeria.

Key words: Railway transportation, public-private partnership, infrastructure.

INTRODUCTION

All over the world, railway transportation has remained an important segment in overall logistics business. This is so because railway transport has obvious advantage over other means of transportation in the movement of goods and passengers overland. In many of these countries, rail transport has retained its pride of place as a veritable source of economic development. But the story is different in Nigeria. Rail transport in Nigeria has suffered greatly in terms of investment in the sector, growth and contribution to the national economy¹. But this has not always been so. In the past, especially in the early 1960s and 70s, rail transport played a key and crucial role in the development of the nation’s economy. At one point in the early 1960s, rail transport accounted for one-third of overland freight movement (Robinson et al, 1961). Apart from being the dominant means of moving freights overland, it also provided useful logistics support to the

¹ Despite a history of almost 115 years, government support has never been adequate and this has led directly to high levels of worn-out railway infrastructure and poor services. For example, the last kilometers of rail were laid in 1958-64 between Kuru and Maiduguri in North-East Nigeria, bringing the total track length to 3,505 km (Odeleye, 2002)
colonial administration by connecting the colonial administrative headquarters in Lagos with other parts of the country. Moreover, it was also the predominant means of transportation between the agricultural and mineral producing areas with the hinterlands. The discovery of oil in commercial quantity in Nigeria in 1956; its exploration and the petro-dollar that flowed into the country in the early 1970s led to the abandonment of agriculture. The abandonment of agriculture also have negative impacted on the railway transport system. Over the years, the economy of Nigeria has continued to expand and new centers of economic gravity have also emerged in various parts of the country with huge and viable opportunities in the railway transport business, which sadly, have not been harnessed.

After over three decades of inactivity in the railway transport system, there has been renewed effort in recent times to resuscitate and modernize the nation’s moribund rail transportation system with a view to providing an alternative, cost effective, affordable, energy saving and environmentally friendly mode of transport especially for raw materials, containers, and bulk petroleum products across the country. The Federal Government has articulated its plan to revive the railway transport system in its Economic Transformation Blueprint embodied in the Vision 20:20:20 document (FGN, 2002). From the policy enunciation, it is apparent that after many years of slumber, government has woken up to the realization that transportation is a key driver of the economy with railway transportation playing a key role.

Given the enormous resources that will ultimately be required to bring back the railway system in Nigeria after many years of neglect and coupled with the global economic meltdown which have negatively affected the revenue profile of the country, it becomes apparent that government alone cannot adequately shoulder the responsibility of reviving the railway transport system. It is interesting too that government recognized this fact and has articulated a policy framework to involve the private sector in the task of reviving the nation’s moribund railway system (Edward, 2001). Indeed, there are already on-going public-private partnerships in the rail sector but this is clearly not enough. There is need to re-jig the concept and bring it once more within the front burner of national policy discourse. The enormous potential in the railway transport system in Nigeria is such that no amount of research attention in the sector will be deemed too much.

To this end, the paper strives to evaluate the railway transport system in Nigeria while placing the analytical spotlight on the public-private partnership arrangement and lessons to be learned from other countries that have tinkered with the option.

**HISTORY AND DEVELOPMENT OF THE NIGERIAN RAILWAY SYSTEM**

Available history suggest that railway system started in Nigeria in 1898 following the laying of the first railway track from the South West (Lagos to Ibadan) by the colonial administrations (Ekanem and Onakomoya, 1977; Muktar, 2011 and Oni, 2000). This history placed Nigerian railway system among the first generation of railway systems in the world. The nation’s railway network was designed in a North-South fashion (Figure 1) mainly to facilitate the flow of goods, such as groundnut, cocoa and cotton from the inlands to the coast for shipment to Europe. In the early years of its existence and up till late 1970s, the railway system was generally efficient and vibrant (Adesanya, 2002).

Although the single-track narrow gauge network ran diagonally across the country, it was able to haul agricultural products from the north to seaports in Lagos and Port Harcourt. The era of groundnut pyramids in the north, palm oil produce from the east and cocoa from the west coincided with rail development in the country (Adesanya, 2010). Following the discovery of crude oil in commercial quantity and the subsequent transition to a petro-dollar propelled economy, agricultural commodities ceased to be the mainstay of the economy. Consequently, the nation’s rail tracks were abandoned as there was no need to transport crude oil through the railways system since crude oil was produced in the coastal areas and was easily pumped into vessels for shipment (Enebeli-Uzor, 2012).

By 1970s through to the early 1980s, both the volume of passengers and goods carried by the Nigerian Railway had started to drop dramatically. Also, the fortunes of the rail transport sub-sector have declined tremendously due to the enormity of the problems and challenges that

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2 According to Adesanya (2010) the primary reason for constructing railways in Nigeria was to open up the hinterland for the exploitation of agriculture and mineral resources – to evacuate mineral resources and agricultural products from the hinterlands to the seaports, for onward shipment to overseas markets in Europe.

3 The most recent plan embodied in the Subsidy Reinvestment and Empowerment Programme (SURE-P) ambitiously seeks to rebuild/renovate 3.877km of railway across the country. Although there has been past government initiatives to revive rail transportation in the country, the government appears to have hit the ground running in the implementation of its recent rail modernization strategy for the transportation sector. For instance, rehabilitation work on the Eastern corridor Port Harcourt to Maiduguri rail track has commenced in earnest with a completion period of 10 months set. Similarly, restoration works on the Western corridor Lagos to Kano rail track has reached advanced stage and is due to be completed in the first quarter of 2013 (Enebeli-Uzor (2012).

4 According to Nevil Miller in an article titled “Nigerian Island Tramway – The erstwhile Lagos Steam Tramway and its unique locomotives” (1996) the Lagos Government Railway began in 1895 to force its way from Iddo, on the mainland, to Ibadan, and was opened six years later on March 4, 1901. Carter Bridge was completed the same year, construction having commenced in 1896, to connect Lagos with the mainland.

5 According to Adesanya (2010) the Nigerian railways during its heydays, contributed significantly to the export of products such as cotton, groundnut, hides and skin, tin and columbite, coal and so on, and help to promote growth and development in the areas where they were produced.
confront it (Adesanya, 2002). For instance, at independence in 1960, the Nigeria Railway Corporation had 257 locomotives, 339 carriages and 3,885 wagons to serve an estimated population of 21 million people. However, by 1995, the rolling stock had dropped to 70 locomotives (with 50% daily availability from 1995-96), 150 carriages and 1,500 freight wagons to serve an estimated population of 150 million people (Odeleye, 2000).

The existing rail network in the country consists of 3,505 km of narrow gauge tracks and 276 km of standard gauge tracks which connects Ajaokuta (where the country’s steel mill is located) to Warri (a major oil hub and transit point for goods through its port). The narrow gauge tracks cover two major rail lines: one connects Lagos and Nguru in the Yobe State (Western corridor); the other (Eastern corridor) connects Port Harcourt and Maiduguri in Borno State. The single-narrow gauge railway line was for many years the only mode of freight movement between the North and South. Successive years of neglect have stalled the expansion of the existing railway network as it has not significantly changed from the legacy bequeathed by the colonial administration. No city in the country currently has an operational intra-city rail system. However, two major intra-city rail systems are currently being developed; these are the Lagos light rail and the Abuja light rail projects (Enebeli-Uzor, 2012).

The railway system and economic development

The availability of efficient railway system is crucial as transport services are essential for economic development (Oni and Okanlawon, 2006). In many countries of the world, rail transport has continued to play catalytic role in bringing socio-economic development. It contributes substantially to the movement of goods and passengers. Empirical works have shown that rail transport provide the most cost-effective, affordable, energy saving and environmentally friendly form of transportation especially in areas where traffic densities are high (Onakomaiya, 1978; Olanrewaju, 1986, World Bank, 1994). According to Adesanya (2012) when railway systems are properly integrated with other modes of transportation, economic levels of traffic can be consolidated to enable the railway to provide efficient services for high density flows of homogenous traffic carried over relatively long distances, including high volumes of containerized cargo or bulk freight such as oil, coal, steel or agricultural produce.\(^6\)

According to Adeniji (1995), an efficient and effective rail system will benefit the country in so many ways. These include:

1. Rail system everywhere in the world is cheap (after the initial costs) and capable of effectively and efficiently transporting large number or amount of people, goods, services, machineries, petroleum and petroleum products, agricultural products, solid minerals, all kinds of raw materials, etc all over the country at minimal costs to the users. No other form of ground transportation can

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\(^6\) As a result of the oil boom of the early 1970s, the Nigerian Railway Corporation benefitted from the patronage of Peugeot Automobile of Nigeria, Inland Containers Limited, Steel Rolling Mills, West African Portland Cement (now Lafarge), Flour Mills, Nigerian National Petroleum Corporation and Cattle traders among others (Ayodele, 2000 and Adesanya, 2002).
move the sheer volume of goods and products like the rail does. A single cargo train is estimated to haul goods that 62 trucks on the average are required to convey. The larger carriage volume of the train allows the simultaneous transportation of a large volume of cargo within a short timeframe and allows tight delivery schedules to be met.

2. It will help open up rural Nigeria to the rest of the country in terms of development and access to services. The development of railways in Nigeria in the past contributed to the growth of many towns that ultimately became large industrial commercial cities, such as Kaduna, Bauchi, Kano, Oshogbo, Ibadan, Lagos, Enugu, Kafanchan and Port Harcourt.

3. Rail system will encourage companies; local and multinational to site their industries in the rural areas thus bringing jobs and all kinds of development to that area. The economics of this can only be imagined.

4. Rail system is definitely relatively safer than air and water transportation, especially with our poor background in maintaining such complicated pieces of technology such as airplanes and ships, and even roads.

5. Rail transportation will ease the pressure and reliability on our already inadequate, poorly maintained and overused road system, thereby prolonging their shelf life and less government spending on rehabilitating them. It has been estimated that a rail system running from Lagos to Maiduguri will clear the road of over 60% of trailers and will cut the accident rate on the Lagos-Ibadan Expressway alone by 80%.

6. As with other developing countries, a large percentage of the citizens cannot afford to use planes as a means of transportation from one place to the other. All over the world, rail transportation has evolved to become the preferred mode of transportation as highways become more congested. Passenger movement figures from airports in Nigeria indicate that only 8 percent of the population travel by air. Rail therefore accounts for just two percent of national transport. Thus a rail system will encourage the movement of people and goods from one side of the country to the other thereby promoting cohesiveness, understanding of each other's cultures, etc.

7. The ability of trains to haul large quantities of goods and significant numbers of people over long distances is the mode's primary asset. Once the cars have been assembled or the passengers have boarded, trains can offer a high speed - high capacity service of up to 100 = 150 km/hr especially if modern trains like Diesel Multiple Units are used.

8. Rail transportation has a low level of space consumption along lines, but its terminals are important consumers of space, especially in urban areas and are characterized by a high level of economic and territorial control.

9. Most rail systems are linked to communication systems as well as electrification. Thus an effective rail system will be helpful in spreading, developing and maintaining rural telephony and rural electrification projects.

10. The railway system will definitely create a very wide variety of jobs, thereby easing the pressure on unemployment in the country. In fact, if implemented properly, the Nigerian rail system has the possibility of being one of the largest employers of people in the country. From when the lines are being laid to building stations, assembling roller stocks and carriages to running the system. All categories of jobs are here - engineers, clerks, managers, printers of tickets, lawyers, doctors, accountants, surveyors, casual labourers, teachers, etc. The possibilities are infinite.²

**Problems confronting the Nigerian railway system**

For over three decades, the Nigerian Railway transport system was neglected in terms of investment and budget allocation to the sector. For instance, Nigeria covers a distance of 923,768 km but there are still only 3,505 km of railways, of which 1,788 km are sharp curves. They are all single-track 1067-mm gauge with either steel or timber sleepers. By comparison, road network increased from 72,000 km in 1962 to about 150,000 km in the mid 1980s, the number of airports increased from 2 in 1970 to over 18 in 1990 (Jaekel, 1997). So the length of railway network has remained constant at 3,505km over the last 50 years. Moreover, Government allocation to the railway sub-sector dropped from 14.03% in 1990 to less than 1.33% in 1990 and less than 1% since early 2000s (Oni and Okanlawon, 2010).

Other problems facing the Nigerian Railway sector have been articulated by Adesanya (2012) in his seminal paper titled “Bringing Back the Rail System in Nigeria.” These problems include:

**Poor funding and huge operating losses:** The deterioration in the railways has been partly a result of lack of sufficient budgetary provision by the Federal Government coupled with poor management by the Nigerian Railways Corporation (NRC). The Federal Government has disproportionately invested and allocated funds to this sector, in favour of the road transport sub-sector. This situation is traceable to government’s lip service and lackadaisical approach to addressing the problems facing the NRC. The rail transport subsector hardly gets up to one-fifth of the allocation to the transport sector. Indeed, the lack of necessary resources to keep tracks, rolling stocks and maintenance facility in reasonable working condition is

²The railway transport sector is a key employer of labour in most parts of the world. For instance, China Railways is reported to have over 3 million staff in the early 1990s; Indian Railways employed up to 1.6 million people. In 1992, the Polish Railways employed 275,000; the Japanese National Railways employed 414,000 workers in 1980, and this number was reduced to 280,000 prior to its privatization while Nigeria Railway Corporation employed over 45,000 in early 1970s (Galenson and Thompson 1994, Fukui, 1992 and Adesanya, 2012).
said to have produced a serious deterioration of the railway system. In spite of generating relatively small revenue annum, its pension bills alone, which rose from N577 million in 1991 to N2.4 billion in 2009, has eroded into what is generated (NRC Annual Report, 2009). Between 1995 and 2001 alone, its average operating loss was 13 per cent (and as high as 52 per cent in 1995). This proportion rose to 34.2 per cent between 2004 and 2008 (Five Year Financial Summary of NRC, 2004-2008).

Poor response to emerging rail transport needs: The rail transport network remained has remained virtually static, with little accretion to the network since the early 1960s. This near stagnation in rail expansion has not allowed rail network to link principal urban centres or major growth points that have since emerged. Ironically, the Nigerian economy has expanded and new growth points have emerged after the completion of the Borno Extension (Kuru to Maiduguri line) in 1964. Unfortunately, the Nigerian railways productivity and performance. The effect of this on operations is a reduction in the number of operational trains and disruption of train services.

Configuration of track and facilities problem: The rail line is characterized by worn out rails, steep gradients, sharp and in some cases, reverse curves, leading to low speed of train, frequent derailments, poor turn-around time for wagons/coaches and even accidents. Lack of spare parts/equipment to undertake scheduled and/or preventive maintenance also constitute a key impediment to Nigerian railways productivity and performance.

Weak political will and commitment: Above all, the lack of commitment in implementing and meeting the timelines for plans and programmes, including those spelled out, in recent years, in the Master Plan for an Integrated Transportation Infrastructure and the 25 Year Strategic Vision for Nigerian Railway System is a major challenge to the resuscitation and development of the railways to a modern and efficient railway system.

Other problems: Other problems and challenges facing the Nigerian railways include poor productivity (and its negative effect on staff morale), retention and maintenance of unremunerative routes, huge wage and pension bills - despite the reduction in staff strength of the NRC from about 45,000 in the 1970s to about 7,000 as at 2004, and poor quality service (Elechi, 1998; Odeleye, 2000; Adesanya, 2002).

It is saddening to note that Nigeria with a population of over 160 million has a rail network of 3,505km, South Africa with about 50 million people has 20,192 km rail network. In South Africa, rail is the most important elements of the country’s transport infrastructure as it connects all the major cities. South Africa’s railway system is unarguably the most developed in the continent with an extensive network – the 14th largest in the world. The country’s rail infrastructure, which connects the ports with the rest of South Africa, represents about 80 percent of the continent’s total rail network. Egypt has approximately 5,083km of rail roads servicing a population of about 82 million (Enebeli-Uzor, 2012).
These problems have combined to weaken the railway transport system in Nigeria and the railway system today is a complete shadow of itself during her hey days. There is therefore, the urgent need to develop the rail transport system in Nigeria by the government through the introduction of private initiatives.

**GENERAL OVERVIEW OF PUBLIC PRIVATE PARTNERSHIP (PPP) OPTION**

The term "public-private partnership" carries different meanings in various context and jurisdictions but the definition by the Canadian Council for Public-Private Partnership (CCPPP) is considered appropriate for our usage. The CCPPP defines the concept as “a cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards (ADF, 2010).

Public-private partnerships span a spectrum of models that progressively engage the expertise or capital of the private sector (Estache and Serebrisky, 2004). At one end, there is straight contracting out as an alternative to traditionally delivered public services. At the other end, there are arrangements that are publicly administered but within a framework that allows for private finance, design, building, operation and possibly temporary ownership of an asset.

As remarked earlier, there is no broad international consensus on what constitutes a public-private partnership (PPP). Broadly, PPP refers to arrangements, typically medium to long term, between the public and private sectors whereby some of the services that fall under the responsibilities of the public sector are provided by the private sector, with clear agreement on shared objectives for delivery of public infrastructure and/or public services (Foster and Brieceno, 2010). PPPs typically do not include service contracts or turnkey construction contracts, which are categorized as public procurement projects or the privatization of utilities where there is a limited ongoing role of the public sector.

In Nigeria, the 25 Year Strategic Vision for the Nigerian Railway System provided for the concessioning of the existing railway facilities and services and the outright sale of non-core assets (FGN, 2002). This type of PPP arrangement for railway transport system seems very popular in Africa. In this type of contract, the operator (private enterprise) leases assets from the public authority (government) while the latter provides major investments (World Bank, 1994 and 2000). Many countries in Africa have adopted this PPP arrangement for their railway transport sector.

The public-private partnership in railway system in Nigeria – So far so little

Of all the government efforts to resuscitate the railway system, the most ambitious was the preparation of the 25-years (2002-2027) strategic vision document for the Nigerian railways. The strategic vision is aimed at re-establishing the railway as a key driver in the transport sector, by transforming the railway system from a non-performing and debt ridden corporation to a dynamic player in the transport sector through strategic investments, new policy initiatives and by encouraging investment by the private sector (FGN, 2002). The most important point in the strategic agenda is the recognition of the role of the private sector investment in the revitalization of the railway system. The government has also gone ahead through the National Council on Privatization (NCP) to establish the Transport Sector Reform Implementation Committee (TSRC) to coordinate and oversee the implementation of the railway reform process. The TSRC has also on its part produced a reform agenda that will lead to the concessions of the railway sector through a phased programme of activities. These include:

i. Formulation and implementation of a new transport policy for Nigeria
ii. Enactment of a new Railway Act
iii. Creating a new legal and regulatory framework within the context of the proposed National Transport Commission
iv. Restructuring of the Nigerian Railway Corporation
v. Divesting the NRC non-core assets, and
vi. Introduction of private participation by granting concessions for both freight and passenger operators.

As remarked earlier, our analytical spotlight is on the private sector participation through concessions and other viable PPP options. According to Chigbue (2005) quoting from Adesanya (2012), the Nigerian railways would be divided into autonomous railways through the following concessions:

Concession 1: Western Railway – comprising of the route from Lagos to Kaura Namoda, through Kaduna, including all branch lines along the route.
Concession 2: Eastern Railway – consisting of the route from Port Harcourt to Maiduguri, including Kaduna to Kafanchan link and all branch lines along the route.
Concession 3: Central Railway – comprising of the standard gauge route from Itakpe to Warri (through Ajaokuta), and
Concession 4: Lagos Urban Rail Mass Transit.

Of all the planned concessions; only concession 4 – Lagos Urban Rail Mass Transit appears to have taken off strongly. The Lagos State Government has commenced the development of an extensive urban rail system.
through the Public-Private Partnership (PPP) option. This arrangement is being coordinated by an agency set up by the Lagos State Government - the Lagos Metropolitan Transport Authority (LAMATA). LAMATA is working with seven lines rail network: Red, Blue, Green, Yellow, Purple, Brown and Orange. The urban rail project has already commenced with the simultaneous construction of the Red and Blue lines at an estimated cost of $1.4 billion. The 30km long Red Line is being developed on the city’s North-South axis through some of the most densely populated areas in Lagos beginning on the island to Agbado through a total of thirteen (13) stations. On the other hand, the Blue Line will run an estimated 27km from Okokomaiko to Marina – another densely populated corridor in the city. The Blue line is being developed in conjunction with the Badagry Expressway Project and will run on an exclusive 15 metre right of way in the middle of the expressway. Upon completion, the horizon of Lagos is bound to change and the impact of the rail will no doubt significantly reduce congestion on the city’s roads and improve mobility with the attendant positive impact on economic activities (Enebeli-Uzor, 2012).

Another rail project with PPP arrangement is Abuja Light Rail Project. This project was conceptualized in 2007 but funding difficulties prevented its take off. It was originally an entirely government-funded project masterminded by the federal capital city authorities. The 280km light rail network is expected to link the federal capital territory with satellite towns such as Nyanya, Kubwa, Mararaba and Lugbe. The light rail is expected to ease traffic logjam in the city on completion. Work on the project has commenced with a PPP arrangement similar to that in Lagos Enebeli-Uzor (2012).

Benefits of PPP option in railway transport system

The current global economic and financial crisis has brought about renewed interest in PPP in both developed and developing countries. For Nigeria, there are a number of benefits accruable to the railway transport sector in the PPP option. Many countries including Nigeria are facing constraints on their public resources and fiscal space. The task of delivering critical infrastructure can no longer be left for the government. Therefore, many countries are now increasingly turning to the private sector as an alternative and additional source of funding to meet the funding gap required in infrastructure development and delivery.1

Funding for railway infrastructure: The cost implication for the rehabilitation of the railway infrastructure is clearly beyond government budgetary capacity. Moreover the capacity to deliver service for this kind of budget is lacking. Therefore the PPP option will enable government to (i) mobilize private sector money, expertise and capacities for railway infrastructure development, (ii) develop long-term relationship with private sector (25 years or more years), (iii) share risks and rewards and avoid lop-sided incentives (i.e. privatizing the profits and nationalizing the losses), which has been prevalent in most government owned/run institutions (iv) ensure private sector performs to agreed key performance indicators, hence allowing for monitoring the performance of private companies and (v) allow it to use and perform life cycle costing in order to understand maintenance which has seriously lacked at the national level, resulting in deplorable and derelict railway transport infrastructure (ADF, 2010).

Minimizing the role of government in railway management: The PPP will ensure that government moves away from the role of infrastructure developer and operator to facilitator and governing. The PPP option will optimize achievement of government strategic goal of providing adequate infrastructure services that support the full mobilization of all economic sectors and will help resolve problems related to old traditional management in railway business such as inefficiency, unreliability and poor fiscal management and will address other factors such as short political tenures (government rush) and rent seeking behavior from various interest groups. In addition infrastructure challenges as mentioned earlier will be resolved through taking advantage of private sector strengths such as (i) Management Efficiency, (ii) Newer Technologies, (iii) Workplace Efficiencies, (iv) Cash Flow Management, (v) Personnel Development, (vi) Shared Resources and Platforms and (vii) Access to diverse sources of capital.

Filling the resource gap: PPP option will also help to fill the resource gap in infrastructure delivery and operation. It will also (i) accelerate infrastructure provision (iii) Promote faster implementation of projects (iv) Engender reduced whole life project costs, (v) Better risk allocation between public and private sectors, (vi) Better and sustainable incentives for private sector performance (vii) Engender accountability in fund utilization

Improvement and better quality services: PPP option will help to improve the overall quality of service of railway transport system. In addition, it will also help to (i) generate additional revenue for government, (ii) improve overall value for money for the entire economy. Moreover private sector has more discipline for translating strategic intent into actions and results on a permanent basis which has been an issue for previous vision and planning efforts in Nigeria.

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1It is worthy to note that the Federal Government of Nigeria in recognition of the huge benefits of PPP option in railway rehabilitation and other critical infrastructure developments established the Infrastructure Concession Regulatory Commission (ICRC) in November 2008 to develop guidelines and specific procedures for PPP projects and to monitor compliance of PPP contracts (ADF, 2010).

**Job creation and employment:** PPP option in the railway transport system will ultimately increase investment and job creation in the sector as witnessed in other countries notably India and UK that have implemented PPP options in their railway transport system. PPP option will ensure that the railway system has improved access to finance, skills and expertise for delivering quality services.

**Lessons from success stories of PPP option in railway transport sector**

Fakui (1992) and Adesanya (2010) documented the success stories of British Rail and Japanese National Rail (JNR) through some variants of public-private partnership. These two country case studies serve as models in PPP arrangement for the rail transport sector.

**The British Rail:** In 1992, the British Government privatized the railway, by creating vertically integrated regional railway companies. There is a single national network operator, initially referred to as Railtrack. With the reforms, passenger numbers grew, new services were added to the timetable and new rolling stock was placed on order. Along the line, Railtrack ran out of money and administrators were appointed to take over the company in October, 2002 and renamed it Network Rail. One of its early decisions was to bring maintenance back in-house.

The current structure of the British rail is that, at the apex is Government (the rail division of the Department for Transport). There is also the infrastructure manager, Network Rail (that replaced Rail-track) and the train operators and their passenger and freight customers. The Office of Rail Regulation (ORR) carries out both economic regulation and safety regulation. Through railway concessions, the vertically integrated British Rail was unbundled into about 100 separate companies. The operations of passenger railways were transferred to 25 Train Operating Companies (TOCs) by public auction, for a duration varying between 7 and 15 years. The TOCs operate designated passenger train services on a franchise basis. In addition, three Rolling Stock Companies (ROSCOs) were created to own and lease rolling stock to TOCs. Network Rail owns the track, stations but not the trains or other train operator assets. Network Rail operates the network and maintains railway assets in accordance with best practice and its income comes mainly from passenger and freight operators who pay track access charges for access to the network (after track access agreement with Network Rail). The most obvious success of the railway has been passenger growth and freight growth.

**Japanese National Rail (JNR):** In Japan, there are more than one hundred private railway companies and the Japanese National Railways (JNR), which was by far the largest nationwide operator. The JNR controlled about 80 percent of the 27,000 km of rail lines in Japan in 1980. However, the huge annual deficit of the JNR, which was about US$18 billion in 1985 and an accumulated deficit of US$286 billion, coupled with a drop in JNR's share of passenger transport volume from 55 per cent to 23 percent in 1955 to 1985, and a precipitous decline in freight traffic from 52 per cent to 5 per cent over the same period, forced a change in its ownership and operating structure. The former JNR was not only huge, monolithic and production driven, it also had 400,000 employees and five previous restructuring failures.

The reforms of JNR were undertaken in 1987. In 1949, the Japanese National Railways was established in 1949 as a 'public enterprise'. In Japan, between 1960 and 1987, the share of passenger traffic handled by rail sector went down from 51 per cent to 22 per cent, while that of freight traffic went down from 39 per cent to as low as 5 per cent. Consequently, the financial position of JNR rapidly deteriorated. After recording a deficit of 30 billion yen in 1964, debt continued to accumulate, to the extent that the Japanese government provided subsidies of 600 billion to 700 billion yen to JNR every year. By the end of fiscal 1986, the long-term liabilities of JNR had reached 25 trillion yen. The precarious position of JNR's financial situation made it bankrupt. Some of the reasons why JNR went bankrupt included its organizational structure as a public corporation which was not equipped for competition. JNR was subject to government interference on budgets, fares, and personnel affairs. Construction of new lines proceeded without due regard for profitability and JNR had minimal managerial autonomy.

In 1987, the government of Japan took steps to divide and privatize JNR. Initially, the government retained ownership of the companies. By 2006, all of the shares of JR East, JR Central and JR West had been offered to the market and they are now publicly traded. The freight service had to survive in a competitive logistics industry. Therefore, by taking the necessary steps to set up a system with clear demarcation of responsibilities, the freight railway was separated from the passenger railways as an independent company. Its success factors included dividing the business into appropriate sizes for each company, creating mutual competitive consciousness between all operators, elimination of interference or reduction of government involvement, business diversification for improved corporate profits and flexibility in the business activities.

The key lesson from the JNR privatization is that all the 6 companies have reduced the work force by about 25 per cent and reduced the long term debt obligations by as much as 40 to 50 percent. In addition, the seven JR companies have paid an annual average of about 260 billion yen to the government or municipalities for corporate tax, fixed asset tax, and other fees and charges. From the perspective of national finances, it can
certainly be said that the JNR reforms were successful. In short, the privatization of JNR is a very good example of how to transform a heavily subsidized, loss making company into a profitable modern service provider transporting more passengers than ever before and competing on cost and service with other modes of transport.

POLICY OPTIONS TO IMPROVE THE IMPACT OF PPP IN THE RAILWAY SYSTEM IN NIGERIA

Given the weak investment and regulatory climate in the country, it will not be (and has not been) easy to attract the required private investment in the railway sector. Moreover, the nature and size of the privatized transport operations and infrastructure in the country is not very encouraging for private sector investment in a highly capital-intensive nature of the railway system.

However, in view of the enormous benefits that will accrue to the country from a revitalized railway transport system (as shown in the country case studies), there is need for the government to take urgent actions to ensure that all the planned concessions in the railway development roadmap are implemented. Of course, this is easier said than done. This may require various forms of incentives – financial, economic, commercial and regulatory to attract private investors to the sector. Specifically,

i. The government should develop a template that defines the rules of engagement for public-private partnership in the railway transport system following international best practices.

ii. The government should develop a regulatory framework for the sector. In this case, there is need to enact the Railways Bill that has been sent to the National Assembly over 7 years. Without a regulatory framework, it will be difficult for interested private investors to come on board.

iii. Government should muster the will to see through all her planned and proposed course of actions for resuscitating the railway sector. There are several plans on ground but the will to implement them are usually lacking. Good economic policies and plans like revitalizing the railway transport system should not be truncated on the altar of politics.

iv. Government should ensure stable macroeconomic environment. Business cannot thrive in an atmosphere of instability, social upheaval, threats to lives and property and disregard to rule of law. Investors cannot invest in a country where they are not sure of the security of their investment.

v. Government should also provide other critical infrastructures that support business including railway transport. Government should urgently fix the energy problem, improve on security and other infrastructures that will support a modern railway transport system.

CONCLUSION

The adverse consequences the country is facing today as a result of past neglect of the railway transport system - in terms of the high cost of road transport services, the carnage on our roads and the unprecedented and rapid deterioration of our roads is a pointer to the grim reality that there can be no better substitute to the railway transport system in overland transportation. It is noteworthy that government recognized the role of public-private partnership in resuscitating the railway system as enunciated in the 25 Year Strategic Plan for Railway Development. It is time to walk the talk by ensuring that all impediments to private sector investment in the rail sector are removed. Only a credible public-private partnership can unlock the enormous potentials in the railway transport system in Nigeria and the sooner this is done, the better for the economy of the country.

REFERENCES


