Policy Brief

No. 2 September 2007

Does Nationalization Policy Increase Investment?

The experience in Nigeria

By Thompson Ayodele[1]

The carnage on Nigerian roads in recent times has reached an unprecedented level. While several reasons have been adduced for the current rate of wreckages on the roads, the truth is that their state is extremely poor. The so-called expressways are not in anyway different from roads constructed during the regional days[1]. Most of the roads in Nigeria are riddled with potholes while many of the vehicles plying the roads are poorly maintained. Also haulage trucks are made to carry goods that are heavier than their approved weight. How did Nigeria get into this unenviable situation in the first place?*

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At independence, Nigeria had a vibrant, efficient and flourishing railway system. The rail system was considered the best way to transport goods, including highly inflammable materials across borders. Colonial administrators in West Africa introduced railways as far back as the late 19th century in order to connect administrative headquarters and principally to provide routes for easy evacuation of cash crops from seaports to European ports. The connection of a rail line in Nigeria extending northeast from Lagos began in 1898.

Colonialism and railway development in Nigeria

The rail mode of transport pre-dates its road counterpart in Nigeria. The reason for this is premised on the fact that the development of the transport sector in Nigeria by the colonial administrators was primarily directed at exploiting the produce of the Nigerian economy. Transport system capable of conveying bulky goods over long distances became naturally attractive as a means of achieving the objective.

The railroad laid in 1898 stretched from Iddo to Ota, stretching over 106/mm (32km) gauge. Major cities and towns such Jebba, Ilorin, Enugu, Zaria, Gusau, Makurdi, Minna and Port Harcourt had been linked by 1930 with railheads at Kaura Namoda, Nguru, Jos and Maiduguri.

The most recent railway constructed in 1964 from Kuru to Maiduguri was an extension of Borno rail that connected the extreme northeastern part of the country[1].

NRC Emergence and Challenges

The Nigerian Railway Corporation (NRC), a public corporation was saddled with the responsibility of managing the Nigerian railway. It was established as a public corporation in 1955 to handle railway transport. Before then, the management of railway system in Nigeria was the function of a department in the central government. The establishment of the NRC was targeted at freeing the management of the railway system from the rigidity and bureaucratic influences of the government. Moreover, it was reasoned through such measures the corporation could be run on semi-commercial basis like other state-owned enterprises. Despite this arrangement, it was not immune completely from government's control. General Policy, fixing of price and appointment of key officers were under the ambit of the central government.[2]

In 1980, the railway under the NRC comprised a total of 3505km route of 1067mm gauge. This was considered narrow when compared with the broad gauge that measures 1435 ton or 4ft 81/2 inches[3]. The aim of the NRC was to promote Nigeria's economy and provide efficient rail transportation through the provision of efficient and reliable goods and passenger train services. Its functions include but not limited to producing a technically complete transportation services and providing limited (stopping at limited states) local and commuter passenger train services. In this sense, NRC was expected to operate as a veritable means of transporting passengers and goods at a relatively cheap cost comparable to other modes of transportation, giving reliable, safe and efficient services with relative comfort[4].

Failed Promises

Various regimes either military or democratic have over the years made spirited efforts to develop the Nigerian railway system through funds granted to the NRC. Despite these attempts, there appears to be motion without movement in Nigeria's railway system. The funds allocated to railway development in various Developments Plans serve to corroborate government's interests. In the first National Plan for example, $43.30 million representing 14% of the total allocation to the transport sector in the plan was voted for the development.

This allocation was expended essentially on the Bornu extension, the purchase of diesel locomotive, 1425 wagons as well as relaying of tracks (with heavier rainfall) to make room for greater speed. This rose by 87.1% to $108 million in the Second National Development Plan (1970-1974) period. This stood at 17.1% of the transport sector size allocation in that plan[5].

However, the disbursement under the plan left much to be desired. In 1973, a year to the end of the plan, only $13.95million representing a mere 23% of the total allocation had been disbursed.

Part of this amount was expended on the purchase of rolling stock and locomotives. In the Third National Development Plan 1975-1980, the rail transport system had an allocation of $1.37 billion representing 10.6% of the total allocation to the transport sector.

The phenomenal increase in the allocation in this plan reflected the views of a Canadian consultant contracted to study the Nigerian railway system of the existence of a great potential for the NRC[6]. These views were based on the assumption of modernization of the NRC. The focus of this plan included the modernization of the railway system by amongst others, re-laying the mainlines and some branch lines, purchase of new locomotives, installation of an automatic signaling system, extension of departure and receiving tracks.

In the Fourth National Development Plan (1981-1985) a total sum of $1.226 billion representing 15% of total allocation to the transport sector was voted for the development of the railway system. Out of the total outlay of $1.658billion meant for the transport sector in the 1990-1992 rolling plan, $232.5 million that translates to 72% of the total, was meant for the railway sub-sector. However, this increased to $261.75 million or 19.4% of the total outlay of the $2.02billion meant the transport sector in the 1991-1993 rolling plan[7]. Aside from the aforementioned allocations in the development plans, government made other substantial allocation of funds to the NRC for the development of the rail transport system over the years.

A drain pipe

In 1988, for instance, following a deal between the Nigerian government and the Romanian government, the NRC received 200 multipurpose wagons out of which 169 had been commissioned, 50 track vans, 110 workshop machines as well as 98 pieces of equipment for fabricating spare parts. Those equipment and spares could not be installed due to lack of funds. Earlier in 1987 an agreement was reached with the World Bank for the rehabilitation of 75 broken down locomotive engines. Owing to logistics problems, this agreement could not be implemented[8].

Following the launching of the mass transit programme in 1988, the financial fortunes of the NRC improved. This enabled the corporation to embark on some development projects as well as rehabilitation and maintenance of the several broken down facilities. Re-signaling equipment systems were installed in all stations, overhead copper wire stringing in Zaria-Kano (140km) and Kaduna-Irri (80km) were also put in place. In addition, refurbishment was effected on 116 coaches and 14 locomotives while substantial rehabilitation work was in progress in two steam locomotive engines.

The NRC received a massive injection of funds from the federal government with the approval of a special grant of $ 85.71 million in 1989 following the reorganization of the NRC aimed at revitalizing the corporation's operating capacity. In 1990, the fund was used largely for the repair and overhaul of 201 different classes of locomotives and refurbishment of 382 coaches and 472 wagons. That year too marked the commencement of the second phase of the contractual agreement with the Romanian government.

In 1995, the Chinese Civil Engineering Construction Company (CCECC) was invited to assess the performance of the NRC. That resulted in the signing of a bilateral agreement between the NRC and CCECC for the latter to render the services of track surveying and repairs, the objective being the revitalization of the operations of NRC. The implementation of the agreement was billed to commence in 1996[9].

Today the percentage of locomotive available is 6% when put side by side with 75% locomotive available in Africa and 85-90% in other well managed rail system across the world. In the same vein, availability of wagons and passengers coaches have declined to 28% and 29% respectively. Implicitly this has affected traffic hauled to less than 50,000 tonnes of freight and almost one million passengers per year. In the past, the volume of freight was 3 million tones and 15 million passengers.[10]

Sad tales from government intervention

Compared with investment in other transport modes, the rail share of funds allocated to the various transport modes has been rather disappointing, having the least in the second and the third national development plans and in the second rolling plan. It ranked third in the first national rolling plan and the first national developing plan respectively. This low level of investment in the rail sub-sector is disappointing compared with what was obtained in India.

Under India's second five-year plan, 18.8% of the public sector development expenditure went to the development of railway sub sector as against the 5.1% for the highway development in India. A parallel view of the development of the railroad in Nigeria under the second national plan showed that railway subsectoral allocation represented only 2.4% of the public sector development expenditure and road development, 16.2%[11].

A recent World Bank report confirmed that there was a drastic decline in the operation of the Nigeria Railway in the 1960s and 70s. That necessitated the government to solicit for the support of the Rail India Technical and Economic Services[12].

Efforts made at signing some contractual agreements also failed. These included a contractual agreement between Nigeria and Rail India Technical and Economic Services, (1978–82), the (1989–92) 'Ogbemudia Revolution' that turned around local rail transport and the rehabilitation project with China Civil Engineering Construction Corporation (1995–99). Although there were some new leases of life for rail system during these periods, those steps did not actually succeeded in turning the rail system into an efficient one. Despite these efforts, NRC performance could not be sustained after the Rail India Technical and Economic Services left in 1982 and the traffic volume carried by NRC plummeted.

Square pegs in round holes

Many reasons could be attributed to the failure of those efforts. Between 1995 and 1999, a whooping contract of $500 million was awarded to a Chinese firm, China Civil Engineering Construction Corporation to rehabilitate the existing rail, supply 50 locomotives, 150 coaches, 400 wagons and 20 rail buses and provide technical training for the railways staff. The substandard rail locomotives, wagon and coaches supplied by the Chinese firm, however, were not fit for later use. The same China Civil Engineering Constriction Company has again been awarded a whopping $8.3b contract to rehabilitate the rail system.

Despite the shoddy work done and substandard locomotives supplied, China continues to make in road in the development of rail system. In 2006, a deal was struck between Beijing and Abuja. Under this deal, China would provide a concessional loan of $1 billion while Nigeria will come up with matching funds. The fund would be used to fix old lines and buy new rolling stock and equipment.

Economic interests or bilateral trade?

It is pertinent to say that this gesture is not limited to Nigeria alone. In past decades, China had sent thousands of engineers and doctors to African countries to apparently extend its political frontiers outside China. But now business interests are at the fore. This is clearly demonstrated in its various bilateral trade and business interests agreements across Africa. It is not surprising that in 2003 China International Commercial Satellite Launcher, Great Wall Industry Corporation landed a deal with Nigeria value $450 million and at present across Africa, more than forty countries now have trade agreements with China.

For China, the rail deal with Nigeria represents one of the latest in a series of moves into Africa. Likewise, China's Citic Group and China Railway Construction announced they had won a tender to build 528 kilometers, or 330 miles, of the 1,216-kilometer Algeria East-West Highway. The Chinese consortium beat bids from the U.S., German and Japanese engineering companies. In January 2005, China offered Angola a $2 billion loan to repair its infrastructure. China's top offshore oil producer (CNOOC) agreed to pay $2.3 billion for a stake in a Nigerian oil and natural gas field. This is its largest overseas acquisition.

Nigeria's railway has fallen into disrepair. Efforts to revamp it have propelled Nigerian government to have it in Phases. In all the phases, China is in the radar. China is also to build a railway line between Nigeria's two main commercial cities, Lagos and Kano. It is not surprising that in order to achieve this, a whooping contract value $8bn contract was signed in 2006 between the Nigerian government and the Chinese Civil Engineering Construction Company (CCECC).

Highlighting parts of the immediate economic gains of the contract, CCECC President Lin Rongxin said 50,000 Nigerians would work on the 1,315km rail line construction which he said was "a design, construct and maintain project"[13]. The five-year north-south line was the first phase in a 20-year modernization program. On Nigeria side, ex-President Olusegun Obasanjo said the second phase of the railway project would include a link between the southern oil city of Port Harcourt and the central city of Jos. Will the latest injection of funds by government result in an efficient rail system?

Journey to privatization and reforms

Going by the current political pendulum, there are plans in the pipeline to replace the Nigeria Railway Corporation (NRC) with another agency. In its stead, government will set up a National Rail Development Authority. This new agency will be a regulatory body that will own all rail operational assets. It will implement the rail policy and the 25- year strategic vision. It will grant concessions and receive concession fees. It will determine Public Service Obligations and subsidies for passengers' services. It will also develop the framework for expansion of new rail lines on Public-Private Partnership (PPP) and Build Operate and Transfer (BOT) basis.

Simply put, the reform process is the road towards privatization of the rail system. Part of the strategy to be employed is concession, just as the Bureau for Public Enterprises (BPE) did for the seaports. To succeed in this transaction, the BPE rail team recently went on a study tour of the United Kingdom rail system. Rail privatization is a lengthy and tricky process going by the UK experience.

For Nigeria, the question is, how would it achieve the objectives of the 25-year strategic vision? Apparently, this would have to be determined by the critical needs of the rail system and BPE's determination to drive the strategic vision. Recently, the BPE's Rail Team has come up with a model for revitalizing the Nigeria rail system. This model is built around concessions which will allow private enterprises operate freight and passenger services on existing rail tracks. A government body will act as a regulator and driver of the rail policy.

What can be inferred from the above analysis is that the monopoly enjoyed by the federal government over the rail transport is responsible for the present state of rail. Government has solely funded the rail system. Partnership with the private sector that could muster enough funds and investments in the development of the rail has never been encouraged. This case is not peculiar to the Nigeria alone. Some years ago, no country in Africa considered privatization of its railway. But today, many have completed the process and notably among them is South Africa. Others are in the process of ceding their railway management into private hands.

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The tempo of railways privatization in Africa gained momentum in the late 1990s. As at 1995, 10 railways--most of them in French speaking Africa –had shifted towards private management. Today, 21 of the 34 railways in Africa are at some stage along the road to privatization[14]. This shift was occasioned by donors' community who are concerned with steady decline in performance coupled with a pull with the existence of successful rail systems in other parts of the world. At the same time, many agencies are willing and able to support the process of change.

Rail business in developed countries has progressed significantly leading to strategies like Design Build Own and Transfer (DBOT). This strategy has made it easier to adequately fund railway revitalization. For instance, the Bangkok's Skytrain elevated rail system, the Great Belt Fixed Link in Denmark and the joint Øresund Strait project between Denmark and Sweden. It is quite obvious that government alone cannot shoulder the financial burden required to rehabilitate the rail.

Monopoly Jinx: The railway Act conundrum

The Nigeria Railway Act exclusively places railway business under the domain of the central government. This clearly excludes private investment. The Act makes it illegal for anyone without the consent of the railway corporation to construct or operate a railway for the public carriage of passengers or goods within Nigeria[15]. One of the consequences of the railway acts is its restriction placed on the extension of railway lines. It states:

"*Notwithstanding anything hereinbefore in this part contained, no extension of the route kilometer of the railway shall be undertaken by or on behalf of the corporation without prior sanction of the minister if such:*
(a) exceeds eight kilometer in length; and
(b) is intended for the public carriage of passengers;
and no extension exceeding eight kilometers in length of the route kilometer of a railway shall be used for the public carriage of passengers without such sanction as foresaid."

What is more, by implication the Act forecloses private investment in the rail business. Investors are always on the look for opportunities. Five years ago, a Canadian firm put forward a proposal to construct a 3-hour Lagos-Abuja rail line. The Oodua Group had also planned to construct a 20-minute Lagos-Ibadan rail track. The Lagos State government last year signed a $240m Memorandum of Understanding (MOU) with Lemna Incorporated, a U S-based firm, for the construction and operation of a light rail under build, operate and transfer (BOT) arrangement.

These laudable projects are bound to face the major hurdle. The Nigeria Railway Act clearly confers monopoly powers on the Nigerian Railway Corporation. The Act stated that it should be unlawful for any person, without the consent of the corporation, to construct or operate a railway for the public carriage of passengers or goods within Nigeria. In other words, the progress of the railway subsector is left at the mercy of politicians.

The Railway Act also placed limitation on the volume of funds that could be raised by the corporation via credit mechanism. The Act also did not make provisions for large-scale borrowing in other to incure capital projects. Section 42 of the Act stated that the corporation may, with the consent of the minister or in accordance with the terms of any general authority given by him, only borrow temporarily by way of overdraft or otherwise, such sums as the require for meeting its obligations or discharge its function only. However, the Act also stated that the corporation might, with the consent of the minister, borrow money by the issue of the Nigerian railway stock or otherwise for all or any of the following purpose:

(a) the provision of money for meeting expenses incurred in connection with any permanent work, the cost of which is properly chargeable to capital:

(b) the redemption of any Nigerian railway stock:

(c) the provision of working capital:

(d) *any other purpose for which capital moneys are properly applicable, including the repayment of any money temporarily borrowed.*

Saved as aforesaid, the corporation shall not borrow any money[16].

Investors' friendly legislation

Huge investment and competition that are vital for the rail system in Nigeria are completely lacking. Private investment is necessary if there is really a genuine desire not only to bring back the rail system but other sectors as well. Revamping and modernizing the rail system is contingent on the willingness of the government to repeal the existing Railway Act and introduce legislation that would open up rail market and makes it competitive. Doubling its funding will do little to revitalize the rail. At best what would be created is a rail system that is dependent on government funding and cannot generate enough funds to defray its running costs. At a time when government is ceding its interests in some business enterprises into private investors, the time to repeal anti-investment law such as the Railway Act is now.

Aside from the problem created by rail Act, Nigeria rail system is crippled by excessive bureaucratic control. Over the years, Nigeria railway has been used as an avenue to reward cronies and lackeys. This has not encouraged competent managers to be at the helms. But the current policy regarding the rail has not given anyone hope that efficient rail system is in sight. The best way to build in efficiency is for government to hands off the management of the rail and slates the enterprise for full privatization. The problems associated with state-owned enterprises and monopolies are not peculiar to Nigeria.

Privatisation farce

Although it is being said that the road to privatization of the rail has begun but that is far from reality. What is still the official policy is still partial commercialization of the rail. What this connotes is that government-owned enterprise like the rail system is expected to generate enough revenue to cover its operating expenditures[17]. That does not insulate the government from giving them capital grant to finance their capital projects. In furtherance of this, the federal government recently injected $449million for Iddo – Ijoko Light Rail Mass Transit Project[18] being coordinated by another government agency, Lagos Mega City Development Authority. The sole financiers of this project are two state governments (Lagos and Ogun States) contributing 40-15 % of the project respectively while the federal government contributes 45 %. Again there is no contribution from private investors.

It is still anybody's guess if the current privatization efforts would yield envisaged result-better rail efficiency. The mechanism through which efficient rail system can be realized is through privatization. With over $800 billion invested over the years on public-owned enterprises[19] and with annual return of less than 10 %, it makes economic sense to divest government ownership in the entire firm including rail system. Privatization of the Nigerian Railway would obviously fall into new hands with new management and the sole objective to make profit and not for rewarding political cronies and lackeys.

Privatization would play a very crucial role. In the first place, the outdated equipment would be able to be replaced with modern technology. Secondly, since the sole objective of a privatized railway is to make profits, new managerial competence would be a green light to willing investors either local or foreign to stake their hard-earn money. The effect of an efficient rail would in turn be felt in other sector of the economy.

For one thing, there is a positive correlation between a reliable rail system and other sectors' ability to attract foreign investments. This expected outcome can only be achieved by repealing the legislative barriers to private participation in rail business. This arrangement would provide for a situation whereby rail operations and infrastructure in different routes would be sold to different bidders[11b]. The successful bidders should be compelled to involve a certain percentage of shares from Nigerian private investors [11c].

Experience in East Africa

Other countries in Africa, notably Kenya and Uganda, in view of government failure to get railways effectively running have taken the initiative to privatize the railway operations. Kenya and Uganda recently handed over their ailing railway operations to a private consortium, Rift Valley Railways' Consortium.[11d]. Nigeria should learn from these lessons and avoid politicizing railway system revitalization through obnoxious legislations.

Railway privatization would have to take a cue from the privatization of the Nigeria Airways. This has transformed its status from being drainpipe to a viable organization. This organization has now become an independent entity, that does not have to wait for the government for its survival. The privatization of the Nigeria Airways (now Virgin Nigeria) has now positioned this entity as a world-class airline.

Lessons

In railway transport, the basic assignment of privatization is an improvement of its business and technological efficiency, making possible the capital investment in the railway by domestic and foreign investors concerned, in order to establish conditions for its further development. Business wise, it would enable people and goods to be transported at cheaper and faster rate from one destination to another. Technically, more sophisticated and technologically advanced modern rail networks are introduced with resultant effect on both price and distant time.

Hence, privatization of the rail system in Nigeria will go a long way in advancing the much-needed economic advancement needed by the Nigerians. The much-needed transit of people and goods from one location to another that have placed undue burden on the Nigerian road will be reduced if not eliminated.

At a time when government is ceding its interests in some business enterprises into private investors, the time to repeal anti-investment law such as the Railway Act is now. That would in the long run reduce carnage on the roads; lessen the costs of haulage and burdens of the road transport and improve the standard of living for ordinary Nigerians.

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