A Patient Investor But An Impatient Manager

WHILE Britain tries to improve its four-year-old railway privatisation situation by re-drawing the country's passenger railway operating map and refining the franchise structure, Africa is just setting out on the exciting road to privatisation. The complexities of the British model mean that Britain has little, if anything, to teach Africa about privatisation. A more pragmatic approach on the African continent is likely to produce better results.

The inability of most African governments to continue funding their railways’ losses has brought the situation into stark relief—privatise or die. But who would dare to invest in such a notoriously difficult area? Well, there are those who see positive benefits in emerging corridors in emerging markets compared with areas such as Britain and Australia where open access is considered as probably a greater risk than political uncertainty in many other countries.

Among them is Railroad Development Corporation (RDC), which, from its modest base with the 1100km Iowa Interstate Railroad in the United States, has moved into privatised railways in Argentina, Guatemala, Peru, and, in Africa, Malawi. RDC’s pragmatic approach began at home with the introduction of a low-tech train control system which is now being used in many parts of South America and by Spoornet in South Africa. In similar vein, in Guatemala, a gang of 50 people repaired a bridge with nothing more sophisticated than a cement mixer!

This uncluttered approach, coupled with “cultural flexibility” involving local joint venture partners, is likely to have greater value in hauling African railways back into profitability than the tortuous and highly-political route taken in Britain. Mr Henry Posner III, chairman of RDC believes that the fundamentals of African freight railways are sound. However, he added during a presentation at AfricaRail 2000 in Johannesburg in June: "Success in this business will rely on the ability to understand the country more than the ability to understand the railway."

The main competition in Africa is the highway truck rather than other railfreight operators. There is plenty of room for improvements on the cost side so Posner concludes that, in general, Africa is as good as an investment environment as one would find in the United States, Latin America, or any other place. The big question mark is in the revenue area as it is very difficult to predict a revenue stream when a railway has either not been running at all or has been badly run in the past. The most important characteristics from an investor’s point of view were having a committed seller, a transparent and disciplined concessioning process, local partners, management investment, marketing, and cost control.

Success in Africa, as anywhere else, also relies on risktaking. RDC has demonstrated that in its privatisation ventures so far. But while Posner espouses the role of the Patient Investor he is also an Impatient Manager: "We are willing to keep going when hurricanes wipe us out or financial markets collapse...But once we are involved in a business we expect to stick to the plan and the timetable." Africa will be seeing more of RDC.


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