



SOCIETY FOR CORPORATE GOVERNANCE NIGERIA

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CORPORATE GOVERNANCE IN THE RAILWAY SECTOR

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Corporate Governance in the Railway Sector



Introduction

The construction and management of the Nigerian Railway, which began in 1895, was one of the cornerstones of British imperialism in Africa and in colonial Nigeria's political economy. From then and well into the postcolonial era, the Nigerian Railway was the most significant employer of labour in the colony and consequently grew to employ over 30,000 staff by the mid-1970s¹, gaining the name the Nigerian Railway Corporation (NRC) in 1955, following the passing of the Nigerian Railway Corporation Act of 1955. The development of the Nigerian Railway served some of its intended purposes, as it brought people from diverse ethnic groups together.

¹ Nigerian Railway Corporation. (1965, March 31). Report and Accounts for the Year Ended, 35, EbuteMetta: Nigerian Railway Corporation.



In 2019, Nigeria's planned expenditure on railway included approximately USD 1.6 billion for the Lagos-Ibadan railway project and a further USD 45 billion required to cover Lagos-Kano, Port Harcourt-Maiduguri, Lagos-Calabar, and Abuja-Warri². By April 2021, about USD 5 billion worth of railway projects were already flagged off for the year 2021³. Thus, given the enormous investments by the federal government of Nigeria to revitalize the Nigerian railway sector in the past few years, this article explores the crucial subject of corporate governance in the railway sector. This discussion is important because poor maintenance and governance of state-owned enterprises have become one of the banes of the development of the Nigerian economy. Whilst the purchase and construction of new railway stations, tracks and coaches are a good development for the country, it is essential to examine the poor governance structure that led to the deterioration of the previous functional railway era and evaluate governance best practices that can reduce the risk of dereliction of the revived and new public assets.

Corporate governance plays a key role in the success of a rail system⁴.

Whilst there is a volume of literature on the crucial role of the Nigerian Railway during pre-war and post-war eras, this article provides a review of corporate governance practices in railway sector, it discusses the elements of good state-owned railway governance, the need for a statement of corporate intent, the key responsibilities of the Board, with a sizeable attention given to the Nigerian rail sector. The article also explores some of the current corporate governance strategies and actions taken by the NRC.

Corporate Governance in the railway sector provides a framework for guaranteeing the railway is properly managed, establishing shareholder-set policy, and conducting business legitimately. It includes developing a structure for strategic guidance and oversight of the railway and a plan for selecting only suitably qualified and ambitious management team⁵.

² Idowu, R. (2019, May 7). Nigeria Needs About \$45billion To Solve The Problem Of Transportation, Says Amaechi. www.channelstv.com/2019/05/07/nigeria-needs-about-45billion-to-solve-the-problem-of-transportation-says-amaechi/

³ Olurounbi, R. (2021, April 28). *Nigeria is spending billions on its railways. Will it work?*

www.theafricareport.com/83687/nigeria-increased-railway-lines-will-decrease-road-congestion-and-help-trade/

⁴ Dong, Y., & Rong, C. Corporate Governance in Rail Industry: Lessons From China Railway Express.

⁵ World Bank. (2017, December 27). *Railway Reform: Toolkit for Improving Rail Sector Performance*. <https://olc.worldbank.org/system/files/Chapter%20%2810%29.pdf>



Features of Good Railway Governance

Common features of governance and institutional structure in the eight countries whose diverse railway industries collectively account for approximately two-thirds of all the railway traffic in the world are: an existing Ministry of Transport with oversight and multi-modal transport policy responsibility; separation of government policy and regulatory functions from the commercial administration of railway services; significant preference for company structures to deliver railway services; multiple service providers; and divisional or institutional distinction of freight from passenger services.⁶

In a survey of the elements of governance and institutional structure in eight countries whose diverse railway industries collectively account for approximately two-thirds of all the railway traffic in the world outside China: Australia, Brazil, Canada, France, Germany, Japan, Russia and the USA, the following were identified as the common elements of governance and institutional structure in the above countries' railway sector. An existing Ministry of Transport with oversight and multi-modal transport policy responsibility; separation of government policy and regulatory functions from the commercial administration of railway services; significant preference for company structures (whether private or state-owned) to deliver railway services; multiple

service providers; and divisional or institutional distinction of freight from passenger services⁷.

In the Nigerian context, the federal ministry of transportation is responsible for the oversight and development of transport policies in Nigeria. However, it is imperative to clearly separate policy-making and regulatory responsibilities of the ministry from the commercial and financial management of the NRC. One of the strategies often deployed to achieve this is the adoption of public-private partnership (PPP), where the private sector partner focuses on the commercial and financial management of the infrastructure. Where PPP is not adopted, the oversight government agency may also outsource the commercial management of an infrastructure, or some fraction of the commercial delivery, or in

⁶ Amos, P., & Bullock, R. (2011). Governance and structure of the railway industry: three pillars. China Transport Topics, (2)

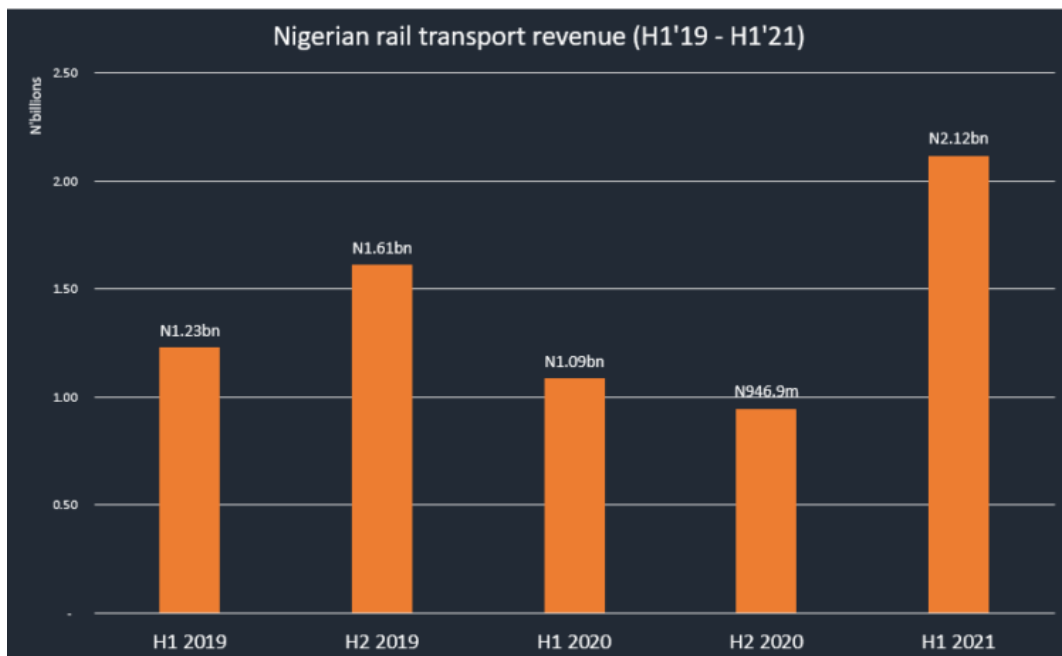
⁷ *Ibid*

general adopt multiple railway transport service providers, both for freight services and passenger services.

In addition, while the construction of railway may improve a government’s reputation before the citizen, the goal of the NRC must be the delivery of quality service, by declaring the statement of corporate intent, thus, establishing good company structure that ensures accountability and minimises waste. For example, one of the cited reasons for the initial corporate failure of the NRC

over 20 years ago was the significantly high number of employees. The NRC must also clearly specify the key performance indicators for rail freight services, separate from those of passenger services. Currently, the NRC is aiming at achieving its targeted revenue. As of September 2020, only 32% of the targeted revenue for 2020 was generated by the NRC. The NRC boss identified construction works and the global pandemic as some of the reasons for the underperformance⁸.

Nigerian rail transport revenue showed an inconsistent growth between half year 1 2019 to half year 1 2021



Source: NBS, *Nairametrics*

⁸ Adesanya, A. (2020, November 7). After 9 Months, NRC Meets 32% of 2020 Revenue Target. <https://businesspost.ng/auto/after-9-months-nrc-meets-32-of-2020-revenue-target/>

Value Chain Governance of Railway

Value chain governance involves the relationships among the buyers, sellers, service providers and regulatory institutions that operate within or influence the range of activities required to bring a product or service from inception to its end use⁹. Value chain governance is essential to expand the value of railway and enhance its influence in Nigeria. The significance of value chain governance is concerned with developing economies' understanding of market access, rapid access to productive capacity, grasping the distribution of rents on the value chain, obtaining technical assistance from developed countries, and finding policy and the fulcrum of technological innovation¹⁰.

Railways are widely known to be fundamental to economic growth. In addition to safe and large transportation of passengers, rail freight services can significantly enhance a country's production level, hence, boosting industries and ultimately improving the country's gross domestic product (GDP) – the market value of all the final goods and services produced in the country. The

associated costs of deploying road transportation for similar tasks are higher cost in road infrastructure, traffic congestion, vehicle emissions and traffic accidents¹¹.

The demonstration of the value of railway is reflected in all aspects, such as economy, politics, and society. Railway can stimulate the transformation of urban structure, industrial upgrading, and the city function. In addition, railway can indirectly affect the layout of the city's planning, thus enhancing the city effect¹².

Value creation in railway is a very multifaceted process involving research and development, design, manufacturing, sales, delivery, consumption, after-sales service, recycling, and other value-added activities. These value-added activities are the sub-systems of value creation, which are interconnected and dependent on each other. Any hurdles with the subsystems will affect value creation¹³. Thus, the NRC must be governed effectively to promote quality delivery of all parts of the value creation in the railway.

⁹ Marketlinks. (n. d.). *Value Chain Governance – Overview* <https://www.marketlinks.org/good-practice-center/value-chain-wiki/value-chain-governance-overview>

¹⁰ Humphrey, J., & Schmitz, H. (2002). Developing country firms in the world economy: Governance and upgrading in global value chains.

¹¹ Amos, P., & Bullock, R. (2011). Governance and structure of the railway industry: three pillars. *China Transport Topics*, (2)

¹² Lin, X., Zhang, Z., & Wang, M. (2017). Value and governance of high-speed railway. *Frontiers of Engineering Management*, 4(4), 463-482.

¹³ *Ibid*

The Role of Board of Directors in Railway Corporate Governance



The effective deployment and monitoring functions of the directors of a railway corporation is an important element in the corporate governance of the railway sector. Over the years, there has been an urgent need for the Nigeria railway system to be reformed through its corporate governance. Corporate governance plays a significant role in ensuring profitable economic system within the railway sector, thus, there should be a brisk reformation within the board of directors. When the board of directors performs their managerial role effectively, the Nigerian railway system will be able to proffer its primary objective.

In 2019, the federal government of Nigeria inaugurated a 26-member board of the NRC. The directors of the NRC must address the

expectations of stakeholders and work with a sense of their publicness. It is important that they comply with rules and regulations in a public manner. Publicness of railway is not only about its market status. It includes relationships with the media, bloggers, citizens, commentators, shareholders, and politicians¹⁴.

The world is globally connected; therefore, the NRC could emulate an efficient and effective approach that has been theoretical and practically proven such as the “three pillars of governance” that has in the past been employed by eight geographical countries that account for the largest railway systems in the world. The features of an efficient corporate governance in these eight countries using the “three pillars of governance” could be adopted by the Nigeria railway sector¹⁵.

¹⁴ Sale, H. A. (2011). The new "public" corporation. *Law and Contemporary Problems*, 74(1), 137-148.

¹⁵ Amos, P., & Bullock, R. (2011). Governance and structure of the railway industry: three pillars. *China Transport Topics*, (2)

Pillar one is the public interest, the public interest must be greatly considered because it helps to improve the social wellbeing of the people. To attain this, the NRC board of directors must prioritise the public interests through their policy making. This can be achieved by ensuring that politicians are not solely making decisions because research has shown that one of the key factors that compromise corporate governance ethics is political appointment at managerial level. Political appointment encourages unqualified candidate to be at the helm of affairs, consequently making policies that are unfavourable to the public interest. Thus, while appointing board of directors, a qualified expert with years of experience in the field should firstly be considered. This will promote appropriate evaluation system within the Nigeria rail sector.

The second pillar is the separation of policy from delivery, this is achievable with the appropriate corporate governance. The eight countries that utilise this approach observed that there will be conflicts of interest if the policy makers are not separated from those who implement them. Therefore, corporate governance ethics suggest that separation of policy from delivery will help organisations to clearly differentiate between management and board authorities, leading to more effective management.

‘Regulated market’ as the third pillar enhances a healthy competitive sector. A well-structured board of directors in the Nigeria railway sector will ensure that Nigeria railway market is properly regulated in terms of optimal service provision, numbers of employees, cost of maintenances, and train tickets prices. Again, analysis of the eight countries’ railway systems by the World Bank observed corporate governance within the sector allows for an efficient economic and safety regulatory process and appropriate use of railways structure by other subsidiaries¹⁶.

Research by the World Bank Associate indicates that the models implemented by the most productive railway sectors in most western countries are not adopted by China, noting that China has been significantly involved in the development of Nigeria railway. The funding of Nigeria railway constructions by the Chinese government might lead to the adoption of China railway governance and organisation as detailed in Article 3 of the 1991 Chinese railway laws. However, the law and methods has not been proven to be sustainable and efficient by a democratic government¹⁷.

In the analysis of China railway corporate governance, public interest has not been identified as the main objective¹⁸, therefore, some of the impact of this can be seen in recent Nigeria railway services where most of the public

¹⁶ *Ibid*

¹⁷ *Ibid*

¹⁸ *Ibid*



information's on the trains are written in Mandarin which is Chinese official language and not applicable to 99.98% of Nigerian train commuters.

Conclusion

This article discusses the concept of corporate governance in the railway sector. It explores the elements of good corporate governance practices in railway services and the role of the board of directors in the reformation of governance practices in rail sector. It highlights the immense investments in NRC by the federal government of Nigeria in recent times and the need to enforce good governance processes to maximise these investments. Recommendations from the article include separation of policy from delivery of railway services, specification of the statement of corporate intent, promotion of public interest, need for a regulated railway market, separation of freight from passenger services.

The goal of the article was to highlight the need for and features of corporate governance best practices in railway sector, particularly in the newly revitalized Nigeria Railway Corporation.



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+2349124878029
info@corpgoonigeria.org
www.corpgoonigeria.org

