POLICY BRIEF 2025

FINANCIAL AND FISCAL COMMISSION
For an Equitable Sharing of National Revenue

A critical analysis of productivity and reform in South Africa's rail sector

Executive Summary

Despite boasting Africa's most extensive rail network, the productivity of South Africa's rail transport sector has been on a steep decline for a long time. This is reflected in the poor operational and financial performance of the country's freight and passenger rail operators, Transnet and the Passenger Rail Agency of South Africa (PRASA). The productivity of these two state-owned enterprises (SOEs) has been undermined by a plethora of issues, including under-investment in infrastructure and its maintenance, rolling stock shortages, cable theft, the vandalism of infrastructure, corruption, insufficient specialised skilled personnel and electricity supply challenges. Much is being done to address the challenges faced by the rail transport sector, including the development of frameworks for reform, which include the National Rail Policy and the Freight Logistics Roadmap. Transnet itself is currently busy implementing its turnaround plan, with a view to returning to profitability by the end of 2024/25. As the country embarks on this reform journey, the Financial and Fiscal Commission (FFC), as part of its Submission on the 2025/26 Division of Revenue, undertook research to investigate what can be done to turn around the performance of the passenger and freight rail industry so that it can contribute meaningfully to economic growth and development in South Africa.

Using a data envelopment analysis (DEA) modeling exercise, research findings reveal a worrying decline in the productivity of PRASA and Transnet. Lessons from international and national case studies highlight the benefits of splitting SOEs and implementing public-private partnerships (PPPs) to revitalise rail transport. Separation fosters competition and attracts investment, while PPPs inject capital and expertise. However, robust safeguards, including sound financial plans, risk management frameworks, clear regulations and strong stakeholder communication, are crucial for success.

THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a body that makes recommendations and gives advice to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts. It may perform its functions on its own initiative or at the request of an organ of state.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

Background

South Africa boasts Africa's most extensive rail network, crucial for both freight and passenger movement. That said, the operational performance and productivity of the country's rail transport sector has been on a steep decline for a long period. This is due to historical mismanagement, policy shortfalls, infrastructure neglect, the use of manual processes, infrastructure theft and vandalism, corruption, an exodus of skilled personnel and electricity supply constraints. As such, there has been a large reduction in the use of rail transport, with rail accounting for less than 20 per cent of general freight movement and 10 per cent of passenger movement. In the past five years alone, more than a quarter of long-distance freight traffic has shifted to roads as a result of the severe deterioration in the freight rail network. It is estimated that the economic loss associated with an ineffective Transnet and having to move goods by road amounts to approximately R385 billion a year, or close to 10 per cent of the gross domestic product (GDP). On the passenger rail side, the unavailability of commuter rail services has meant that people in the country's metros are spending nearly half of their total income on alternative public transport. A rail feasibility study conducted by the City of Cape Town's government for the potential transfer of responsibility for rail services from the national government found that an efficient passenger rail service could create more than 50 000 jobs and add R11 billion to the local economy annually

South Africa's rail challenges have resulted in the unavailability of an affordable means of public transport. They have also undermined the country's trade competitiveness, hampered productivity and raised the cost of goods and the cost of doing business. There is thus a strong case to address the challenges facing the sector and reform it so as to unlock its full potential to have a positive socio-economic impact on the country. In this regard, the FFC undertook research to investigate what can be done to turn around the performance of the passenger and freight rail industry so that it can contribute meaningfully to economic growth and development in the country.

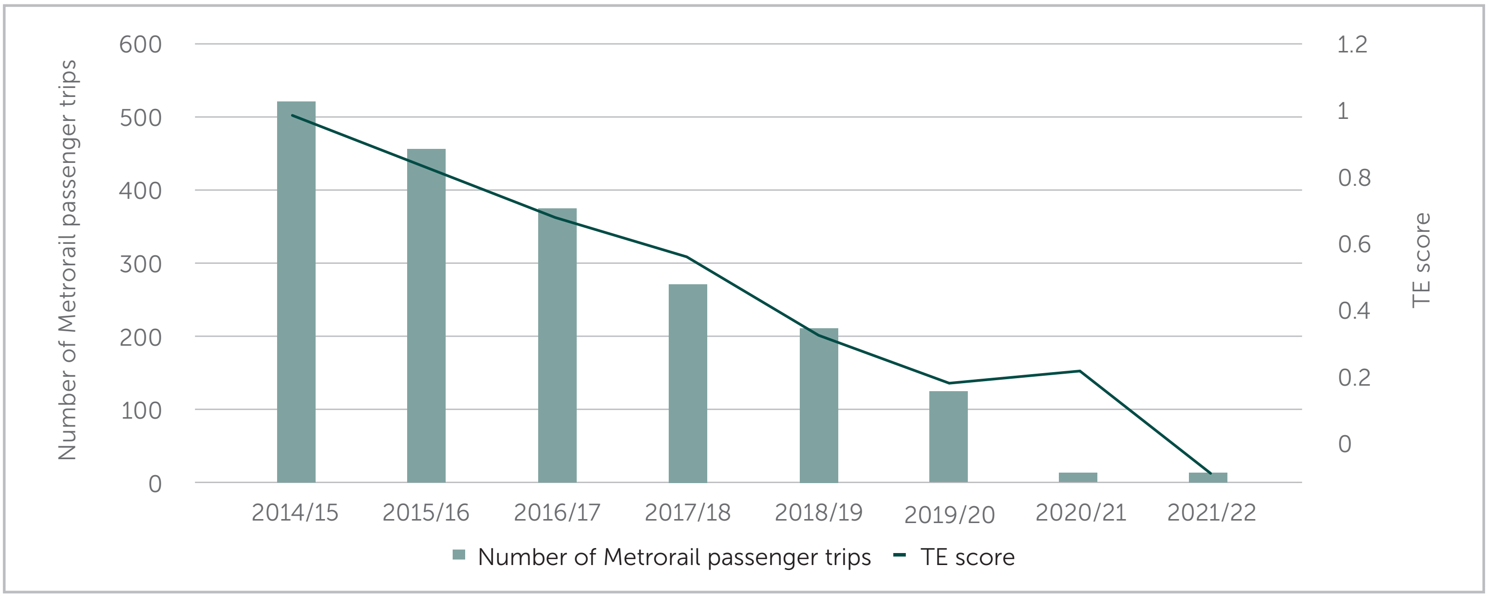
Research findings

The Commission's research findings are categorised according to three themes:

1. The impact of productivity challenges on operational performance of South African rail transport SOEs

PRASA is responsible for the country's passenger rail services. The entity's performance has been significantly poor with the number of paying passengers plummeting by 97 per cent (from 516 million to a mere 15.7 million) between 2014/15 and 2022/23 (see Figure 1).[1]

Figure 1. PRASA's technical efficiency score and number of Metrorail passenger trips, 2014/15–2021/22



Source: PRASA annual reports, Commission's calculations.

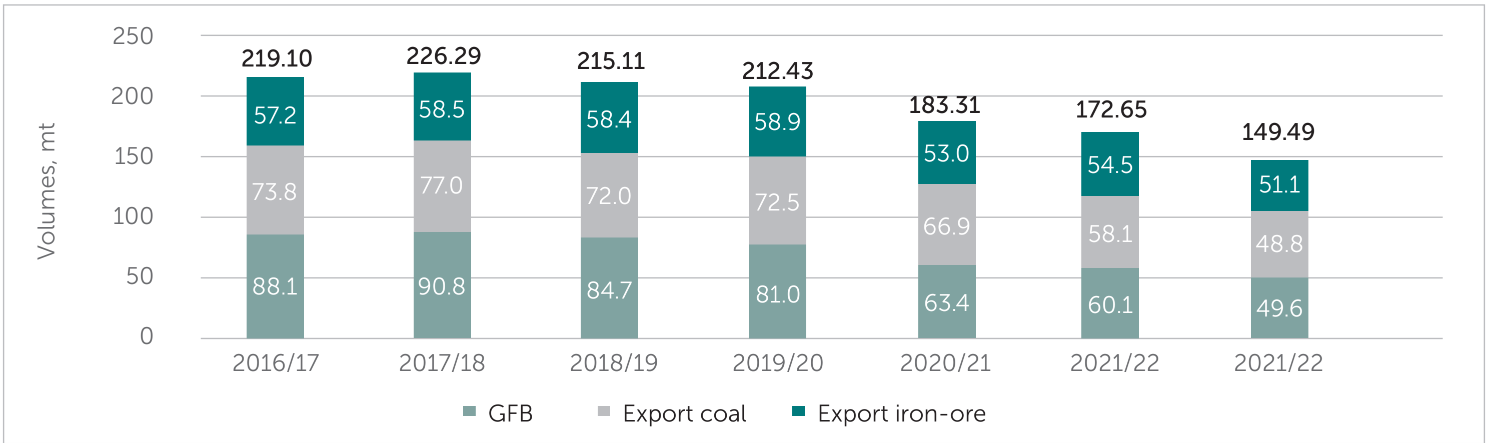
[1] PRASA's financial year runs from 1 April of the previous year to 31 March of the current year.

This decline extends beyond the COVID-19 pandemic, highlighting deeper issues. Furthermore, train availability has severely decreased – falling from 291 train sets in 2016/17 to just 63 train sets by 2021/22. This unreliability, coupled with the theft and vandalism of infrastructure, has pushed rail transport to the fringes of South Africa's public transport system. The Commission's efficiency modelling[2] further illustrates the impact of these challenges, with PRASA experiencing a drastic decline in efficiency, from a TE score of 1.0[3] in 2014/15 to 0.04 in 2021/22 (as shown in Figure 1). This suggests that PRASA is only utilising 4 per cent of its potential maximum efficiency to convert inputs (expenditure and government subsidies) into passenger trips efficiently when compared to 2014/15.

Transnet Freight Rail (TFR) has been plagued by declining volumes and operational inefficiencies. Total rail volumes have dropped by 32 per cent since 2016/17, falling from 219.1 million tonnes (mt) to 149.5 mt, as shown in Figure 2.[4] This decline is evident across all sectors, with general freight business dropping by 44 per cent and export coal by 34 per cent. A key contributor to this decline is the lack of available locomotives. The number of long-standing locomotives, which refers to locomotives out of service for more than 90 days, quadrupled between 2019/20 and 2022/23, rising from 106 to 378, hindering TFR's ability to move freight effectively. Furthermore, slow wagon turnaround times (the time it takes a wagon to complete a round trip) highlight operational inefficiencies, likely due to infrastructure issues and maintenance backlogs.

An efficiency analysis reveals that Transnet's TE score began showing a decline from 2019/20, falling from 0.96 to 0.77 in 2022/23, signalling a drop in productivity (as shown in Figure 2). This implies that Transnet has gone from converting its inputs (operational expenditure, employee headcount and capitalised maintenance) into freight volumes moved from a rate of 96 per cent efficiency to a rate of 77 per cent over a four-year period.

Figure 2. Transnet's freight rail volumes and TE score, 2016/17–2021/22



Sources: Transnet's annual reports, Commission's calculations.

2. Government's response to the falling productivity of rail transport

The South African government has sought to turn around the performance of the rail transport sector by providing frameworks for the reform of the sector through the adoption of the White Paper on National Rail Policy and the approval of the Freight Logistics Roadmap. The National Logistics Crisis Committee (NLCC) has also been formally constituted to oversee the implementation of the Freight Logistics Roadmap, improve the productivity of freight rail, and assist in the restructuring of Transnet to make it more sustainable. The Commission notes that the NLCC presents a promising platform to address critical issues plaguing South Africa's freight rail sector and drive tangible change. Its inclusion of key stakeholders (including National Treasury, the Department of Transport and Transnet) has the potential to streamline decision-making processes and foster quick, consensus-driven solutions to the operational and financial challenges facing the freight rail sector. However, the NLCC's success is dependent on achieving effective coordination among the diverse set of stakeholders and ensuring that it remains free from being influenced by political interests that could adversely impact its effectiveness.

[2] A variable return to scale, output-oriented data envelopment analysis (DEA) modelling exercise was conducted.
[3] An efficiency score of 1 indicates maximum efficiency.
[4] Transnet's financial year runs from 1 April of the previous year to 31 March of the current year.

In December 2023, Cabinet approved the Draft Rail Private Sector Participation (PSP) Framework. This is a significant development when it comes to the issue of the private sector's role in turning around the performance of the country's rail transport sector. The Commission's case study analysis indicates that joint venture approaches have been utilised across the globe to help attract external capital into the rail transport sector. As such, work must be done to quickly implement the PSP framework. This framework should clearly outline the roles and responsibilities of all stakeholders, describe the tendering and procurement process, as well as the funding models, and deal with both risk sharing among stakeholders and economic regulation to remove risks of conflict of interest. The Gautrain project should be leveraged to glean lessons to create an enabling environment for the private sector in the country's rail operations. The timeline for this framework's implementation should coincide with the opening up of private sector participation in the rail network.

Transnet is currently implementing its own turnaround plan to return to profitability by the end of 2024/25. The SOE has, however, indicated that the successful implementation of its recovery plan hinges on being able to obtain financial support from National Treasury. In December 2023, a guarantee facility amounting to R47 billion was made available to Transnet. While the availability of additional funding can assist in addressing some of the challenges confronting the entity, the Commission is concerned given the further pressure that this bailout places on the country's already strained fiscus. On a positive note, Transnet is preparing for the introduction of private sector involvement in rail operations and has established an interim Infrastructure Manager. The Commission welcomes this approach as it can help bring much-needed investment into the rail sector.

3. Lessons from international and national case studies

Given the South African government's plan to reform and revitalise the country's railway sector, as outlined in the White Paper on National Rail Policy and the Freight Logistics Roadmap, the FFC also undertook a case study analysis to learn lessons on how other countries[5] have transformed their rail transport sectors and facilitated a modal shift from road to rail. The selection of case studies included a review of the Gautrain Rapid Rail Link to identify valuable insights from South Africa's own PPP rail project. The case study analysis suggests that splitting SOEs and PPPs can help revitalise rail transport. SOE separation fosters competition and attracts investment, boosting performance and efficiency. On the other hand, PPPs inject capital and expertise. However, robust safeguards are crucial and should include a sound financial plan, a risk management framework, clear regulations and strong stakeholder communication.

Recommendations

The Commission made the following recommendations:

1. The Commission welcomes priority attached to finalising the National Devolution Strategy and strongly advises against further delays in meeting the completion deadline. The Commission further recommends that a phased approach to devolution be implemented.

2. The Department of Transport, in collaboration with National Treasury, Transnet, the South African Police Services, PRASA and the private sector should work to develop and implement data-driven strategies that are aimed at better infrastructure maintenance, modernising train tracking and scheduling systems, and combatting crime.

3. The Department of Transport should work speedily to get the Private Sector Participation Framework in place, given its importance in guiding coordination and collaboration with state-owned enterprises and private sector companies.

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