



United Nations
Economic Commission for Africa

6th PIDA Week Webinar

18th January 2021



The Luxembourg Rail Protocol: A New Rail Rolling Stock Financing Tool

Why are Railways important for Africa?

Africa has a low level of intra-regional trade ...

Source: UN Economic Commission for Africa

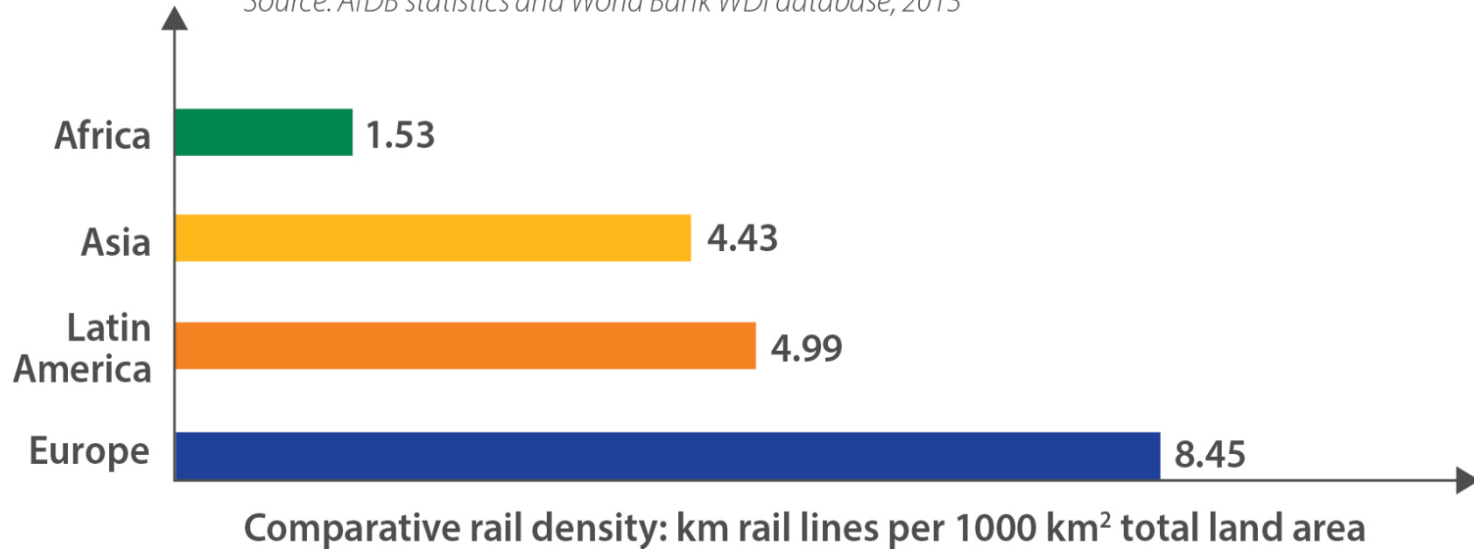
Percentage of
intra-regional
trade →



Africa Needs More Railways

... and too little rail infrastructure

Source: AfDB statistics and World Bank WDI database, 2013





The potential benefits of the African Continental Free Trade Area depends on an effective rail system facilitating transport services within Africa and supporting intra-African trade. In addition, railways have become an essential tool in combating climate change and, in Africa, congestion and pollution in the cities such that Railways are an essential part of the sustainable development agenda for Africa going forward.

Africa Needs More Railways

- Railways are essential for sustainable development
- The lack of integrated African rail networks is holding back growth and intra-continental trade – including the AfCFTA
- Roads cannot take the strain from increased trucking
- Cities are strangled by congestion and pollution
- Moving passengers and freight onto rail is vital for environmental, social and economic reasons (1 train can transport the freight carried by 40 trucks)

But this requires \$billions of investment in infrastructure and rolling stock but states' resources are limited

Current Financing models

- State funds – taxation and debt
- Development Aid
- Foreign state/state agency loans and grants
- World Bank and multilateral development bank loans and guarantees
- However
 - the government resources are limited
 - debt burdens can be too onerous
 - and soft loans and aid come with conditions

But the Private Sector Can Help.....

- Rolling stock procurement accounts for about 1/3 of a rail project
- Funds available from banks, pension funds, private equity funds, and other investors.
- Aim is to commercialise, not necessarily privatise
- Rolling stock is an excellent long-term asset

New Financing models

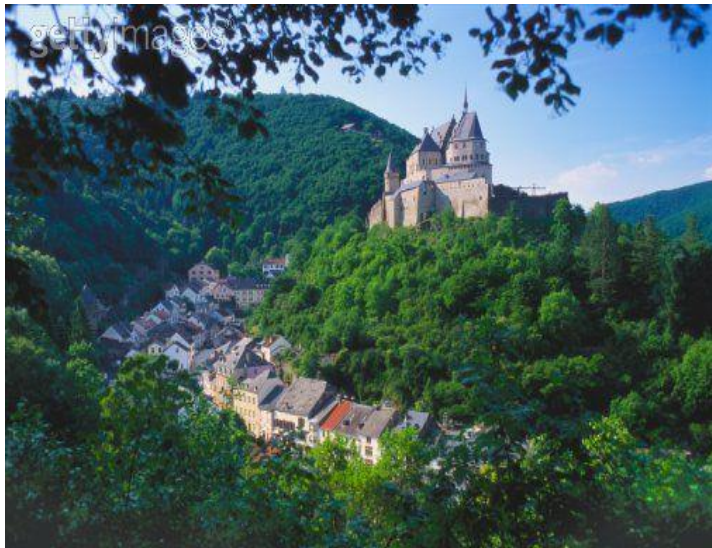
- Rolling stock can be financed by the private sector through debt or equity
- Investors can bring in capital either through direct equity investments in operators
- Or finance operators' procurement of rolling stock through structured secured debt or leasing
- But without (sound) state guarantees the private sector is reluctant to finance rolling stock – or the cost of credit is too high. Why?

Common risks for private capital

- No national title or security registry
- Identifiers unstable (from a creditor's perspective) and inconsistent across the sector
- Limited legal infrastructure domestically and internationally
- Repossession issues for creditors on debtor default or insolvency
- Public Policy and Public Interest
- Banks' capital requirements and Basel II, III (and soon IV?)
- Limited commercial tracking of assets
- Conflict of laws and cross border risks

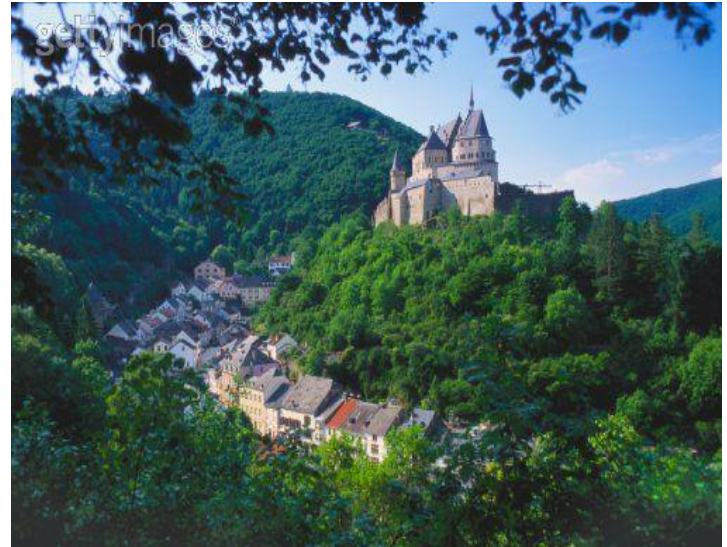
A new solution: Rail Protocol

- Diplomatic Conference in Luxembourg in 2007:
- Attended by 42 states and 11 international organisations including 7 African States and SADC
- Sponsoring intergovernmental organisations UNIDROIT and OTIF – both with African members



Rail Protocol

- Applies the Cape Town Convention to rolling stock when debtor is located in a contracting state
- International registry in the Cloud (operated from Luxembourg)
- Registrar responsible to contracting states
- Will introduce global unique identification system for all railway equipment



The Protocol's Status

- Adopted in 2007 (4 ratifications and active registry required to enter into force – expected during 2020)
- Appointment of Regulis SA (SITA subsidiary) as Registrar in December 2014
- Ratified by Gabon, Luxembourg and Sweden (and the EU)
- Signed by Italy, Germany, France, Mozambique, Switzerland and UK - all moving towards ratification
- Under review in Africa, by South Africa, Mauritius, Burkina Faso, Egypt, Uganda, Senegal, Namibia and Ethiopia

Conclusion

- Expansion and rehabilitation of the railways are a critical component of a sustainable development agenda for Africa
- Railways are the key to open and free trade across Africa
- States cannot carry this burden alone: private entrepreneurs and private capital are needed – and will be available to finance rolling stock if the security conditions are right
- The Rail Protocol creates a new global legal regime for securing creditors, with minimal cost, facilitating more and cheaper asset based financing of railway equipment **without state support**

Conclusion

- The Rail Protocol to the Cape Town Convention will support African economic integration and high speed rail networks through the provision of common rules covering cross border operation of rolling stock
- For public and private operators, the Protocol opens up new capital sources and new ways of doing business – operating leasing leading to a larger, more dynamic, efficient, transparent and competitive industry
- As such it will be a game changer and will help Africa achieve its economic potential

The way forward

- ❖ The Rail Protocol should be operating in contracting states in late 2021 or shortly thereafter: Africa should not be left behind
- ❖ Resolutions by:
 - Conference of African Ministers of Finance and Economic Planning (COM 2019) in Marrakech, Morocco
 - African Union Commission's Specialised Technical Committee meeting of Ministers of Transport in Cairo, Egypt (November 2019) during PIDA Week

to encourage AU member States to adopt, sign and ratify the Rail Protocol

- ❖ **Lead the way, endorse the Rail Protocol**



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THE 2001 CAPE TOWN CONVENTION
ON INTERNATIONAL INTERESTS IN MOBILE EQUIPMENT



RAIL WORKING GROUP