THE 2001 CAPE TOWN CONVENTION
ON INTERNATIONAL INTERESTS IN MOBILE EQUIPMENT

RAIL WORKING GROUP

An association under Swiss law

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Chairman's opening remarks

When it comes to transportation in East Africa, there is no doubt that we are now at a critical point. The projected 2.3% p.a. increase in population across Africa 2010 – 2015, and the 2.8% p.a. labour force growth over that period will trigger disproportionately higher economic growth rates, compared to other world regions, as Africa begins to take advantage of its demographic dividend. The 2012 State of East Africa report shows a healthy average annual growth rate of 6% across the East African community.

Further the East African economies are continuing to integrate. The same report states that intra East African trade grew from $2.2 billion to $4.1 billion between 2005 and 2010 and that trade between the region and the outside world doubled over that period.

Inevitably, transportation will be the key catalyst of economic development in this region and the growing trade flows will force some important decisions in this sector.

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In this context, the announcement last year of support of $500 mio. from the African Development Bank for a railway master plan for the East African Community, is surely a huge step in the right direction, especially as this should lead to some major railway line upgrades, including the one from here to Isaka and also rail links for the first time into Burundi and Rwanda.

In addition the expected increasing concentration of the populations in East Africa will require significant investment in local light rail and suburban transportation systems.

In my specialist area, railway rolling stock, it is clear that there is an urgent need for more capital investment in East Africa (and for that matter in other parts of Africa) in the coming years. The latest Roland Berger rail market study predicts 2.3% compound annual growth in rolling stock procurement worldwide for the years 2012 – 2017 and 6.9% p.a. over the same period in Africa and the Middle East, with similar high growth figures for infrastructure investment.

It has been clear for some while that governments in this region have been prepared to take robust and imaginative collaborative approaches to the way that road, rail and ports' infrastructures are designed, implemented and financed. These approaches have not always worked and indeed it would be surprising if they did, but clearly there is a major commitment to use the private sector as the agent for change, both in relation to building, development, operation and, I would suggest, for finance.

The last is more controversial. There have been many discussions over the years concerning World Bank and aid money to support what is an essential element of economic development. Western governments also make monies available through export credit guarantees or cheap loans which effectively create a type of subsidy for the financing of major projects and assets. According to the OECD, Tanzania received almost $3 billion in official development assistance in 2010, and Uganda $1.74 billion, so this is not a small issue. In each case well over a tenth of this aid was allocated to economic infrastructure and services.

We can ask whether these monies have been wisely used in the past but there is another, more fundamental question as to whether this type of support, by which, to be clear, I mean straight cash or subsidy and not the more complex detailed expertise and equipment support for example currently offered by China to Tanzania, should in any case be part of the finance strategy at all when it comes to transportation; whether, in the long term, such support structures create more problems than they solve for the local economy. Specifically, it must be in the interests of local governments, and indeed builders and operators of infrastructure, that local finance sources and expertise coming through local banks and entrepreneurs can be developed and that foreign inflows come by way of investment rather than hand-outs which can be turned off at short notice (see for example what is currently happening in Rwanda) and often come with a political and operational price tag. If the effects of Western aid or subsidised loans are to make local finance providers uncompetitive, in turn discouraging entrepreneurs from developing local funding alternatives, I would suggest that this could be a long term strategic error.

This is one of the reasons why the Rail Working Group is working so hard on the promotion and adoption of the Luxembourg Rail Protocol which will make it much easier for the private sector locally to finance rolling stock investment as well as to make it easier for rolling stock to cross borders without undermining a financier's or an operator's security. It will facilitate the provision of more local and international private resources for procurement of rolling stock, in turn, relieving governments of a key finance headache whilst lowering the barriers to entry and increasing the (positive) competitive pressures in the industry.

The result will be not just operational but also financial autonomy by allowing local businesses to be actively involved in financing structures and to ensure that future funds from the developed world in this sector come in predominantly as investment and not aid. Hopefully this will be part of the East African Community's planning as the regional rail project develops.

No doubt these issues will also be discussed tomorrow afternoon, when presenters will probably also look at some of the detailed structures such as PPP, BOT, concessions and franchises, and on how you allocate risk between the public and private sectors, but think about this also during the discussions today. Every project, however worthy, will not work if there are no resources allocated to it.

With this in mind, we can look forward today to a thought-provoking tour of some key issues presented by political and industry leaders in the area of infrastructure development in East Africa and beyond. We are greatly honoured to welcome top government representatives both from the governments of Tanzania and Uganda. Unfortunately, at the last minute, the Tanzanian Minister of Transport has been called away to another urgent matter and could not be with us, but we are privileged to have his team with us. We will also have some detailed remarks from observers at the front line, both from the public and private sector, in the morning looking at predominantly rail, and then in the afternoon at roads.

One last remark before we move on.

Both of our key-note speakers this morning will, quite rightly, look at not just the road, rail and port sectors as subjects in themselves, but also as part of an integrated strategy for infrastructure. This is very important; we must not get into silo thinking. Both road and rail need to feed into ports on the freight side to ensure optimum conditions for economic development. But sometimes people look at the road and rail sector and see them as sectors in competition with each other. Not only is that an unforgivable generalisation but in many cases is clearly not true. There are many cases where, if conceived correctly, road and rail can be complementary to each other and what we are seeing is Europe is a growing development of integrated services, particularly in the freight area, where road and rail each play their part. Interoperability will be an essential element of transportation's future.

The challenge for government is to ensure that the cost and revenue structures accurately and transparently reflect the real benefits to society from using one form of transport compared to the other, bearing in mind the economic efficiency, congestion, social, environmental and safety factors arguing for moving freight and passengers from road to rail in the medium term. It will be the way that governments balance the allocation between the different parts of the transportation industry, how they weigh a business dynamic with the public interest, how they create a level playing field on the finance side, and manage the infrastructure costs so that the private sector can compete on a true basis, providing cost effective local expertise, that will ultimately determine whether these projects will succeed.

So thank you for being with us to discuss issues that will really make a difference to everyone in the coming years. I promise you a stimulating and fascinating day.

Howard Rosen