Transport Global Practice
Snapshots

Financing Railways and Getting it Right

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The Transportation networks of the world span many modes. Railways are a critical and climate-friendly component of these networks – supporting development through industrial and economic growth, trade, and mobility. In high volume corridors, well-managed railways are:

**EFFICIENT:** transporting high volumes of goods and people with much less fuel, labor, land and resources.

**LOW-COST:** rail is cheaper than road or air transport.

**SAFE:** with a low incidence of accidents, injuries and fatalities per unit of transport delivered.

**COMPACT:** moving people and goods with a much smaller physical footprint than road—an important attribute in cities and other densely populated areas.

**CLEAN:** shifting transport to lower-emitting modes such as rail allows economic growth with less Greenhouse Gas (GHG) emissions. For example, an independent study commissioned for the US Federal Railroad Administration found that on average rail was four times more fuel efficient than trucks, reducing GHG emissions by 75 percent.1 In Europe, another study found that to transport 100 tons of freight from Basel (Switzerland) to the port of Rotterdam (Netherlands) 4.7 tons of CO2 emissions are generated by road, 2.4 tons by inland waterways, and 0.6 tons by rail.2 The Eastern Dedicated Freight Corridor project in India is expected to save eight million tons of GHGs by attracting traffic to rail transport.

Economic growth in developing countries will increase the demand for transport, therefore, good linkages between railways and other modes are needed. This often requires investment and changes in business modality to be successful. Additionally, railways must be well-managed to achieve their potential, by being customer oriented and providing quality services at a low price. In the absence of these attributes, customers will use other modes despite rail’s inherent advantages. Reforms in sector governance and structure are often needed for this to happen.

What have we done so far?

The first loan ever made by the World Bank (1947) included railway rolling stock needed for the reconstruction of France. Further reconstruction loans to the Netherlands, Denmark and Luxembourg followed, amounting to $500 million for the postwar reconstruction efforts3. In the last decade, the Transport Global Practice approved USD $8.4 billion in lending for 25 Railway projects in 14 different countries spanning all regions. These range from multimodal project financing in Tanzania, Cameroon and Congo to Urban Rail operations in Senegal, India and China. The World Bank has also supported clients with capacity building efforts through several Analytics and Advisory Services.

The World Bank’s railway operations are aligned to its vision of sustainable mobility - reducing transport time for passengers and freight; improving accessibility, mobility, and transport connectivity; increasing multimodal transport efficiency; and developing and strengthening institutional capacity. However, railways are capital intensive, and increasingly need to attract financing from the private sector to ensure success. The World Bank’s experience in railways has led to creating valuable knowledge and important lessons for financing feasible and effective railway operations:

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The private sector can manage the construction or operation of the project more efficiently than the railway company.

PPP creates incentives for service and market development that would be otherwise lacking.

In 2017, the World Bank supported the design and creation of the Railways of India Development Fund (RIDF), a $5bn fund to support commercially viable investment in the railway sector in India. To attract the private sector, the fund will be managed independently by a non-government entity with a sound governance structure and project evaluation capacity. The fund will build needed railway infrastructure and lease it to Indian railways, tapping the funding from profitable freight traffic generated from the new capacity.

Where can we go from here?

In September 2017, the World Bank launched ‘Maximizing Finance for Development’ which seeks to crowd in private financing for developmental needs. For railways, financing will be maximised by policies to address funding gaps and mitigate risks through transparent, robust sector and corporate governance. With these interventions, a railway can access many private sector financing instruments – loans, bonds, equity, leasing – as well as consider PPP as a project delivery mechanism with financing.

The World Bank has recently updated its Railway Reform: Toolkit for Improving Rail Sector Performance, to include more information and case studies on railway financing and the railway sector in general.

Experts

For more information, please visit Internal WBG Link http://railways