



*Public/Private Partnerships in Railways:
Recent Achievements and Experience*

**Central and Eastern European Rail 2000
Budapest, Hungary**

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Approaches Available

- **Traditional public management**
 - » **Public construction and operation**
 - » **Design and construction options**
 - » **Management contracts**
- **Public/private partnerships**
 - » **Franchising/concession (“Concessions”)**
 - » **Existing system, various BOT (both)**
 - » **Functional separations, **mixed operation****
- **Privatizations**
 - » **Divestitures to private operators**
 - » **Private supply and operation**



Why Concessioning ?

- **Mobilize private investment**
- **Reduced budget outlays/income to budget**
- **Construction or operational efficiency**
- **Better use of national resources**
- **Better market development**
- **Enhanced social equity**
- **Effective environmental protection**
- **Clarity of objectives**



Concessions in Railways

- **Government defines and grants rights to a company**
- **Concession agreement details objectives, **allocates risks****
- **Government retains or can receive ownership of infrastructure and equipment at end of term**
- **Concessionaire provides services, some facilities, and carries appropriate commercial or financial risk**
- **Concession has a defined term (5 to 50 years)**
- **Privatization can have unlimited term**



Dimensions of Concessions

- **Package size/division of responsibility**
- **Term**
- **Who owns or finances what**
- **Service specification (quantity, quality and price)**
- **Tariff authority**
- **Payments (to/from)**
- **Award criteria**
- **Renegotiation conditions**



Critical Issues

- **Allocation of risk**
- **Regulation (safety, economic, anti-monopoly)**
- **Environmental/social issues in construction**
- **For existing facilities:**
 - » **Term vs. Investment objectives**
 - » **Process speed vs. transitional damage**
 - » **Surplus employees**



Privatization of Railways: Back to the Future

- **Integral privatization (some multiple use)**
 - » **New Zealand, Canada, Japan, US, TAZRAIL**
- **Infrastructure separation (with sale or franchising of operations)**
 - » **UK, Romania, Chile, EU railways, Estonia, Poland, Australia (many models)**
- **Mixtures of concessioning **and** privatization are possible (and often best)**



Awarding Options

- **Negotiations, auction, sealed bid**
- **Prequalification**
- **Flexibility vs comparability**
- **“Weighting formula” vs. best price**
- **Government decides award criteria: minimum tariff, maximum payment to Government, minimum operating support with fixed tariff, minimum capital contribution, and NPV-based combinations.**



Critical Privatization Issues

- **How infrastructure is separated:**
 - » **Who owns infrastructure and controls dispatching**
 - » **Neutral access and acceptable charges**
- **Concession (exclusive, non-exclusive), sell going concern(s) or sell assets?**
- **Term (if any) of operating franchises availability of rolling stock**



Lessons

- **Determined **action** is vital**
- **Make sure you have the money**
- **Keep risk in the right place**
- **Social issues (labor, resettlement, environment) are important**
- **Pay for social services (students, season tickets): avoid cross subsidies**
- **Don't forget regulation/oversight**

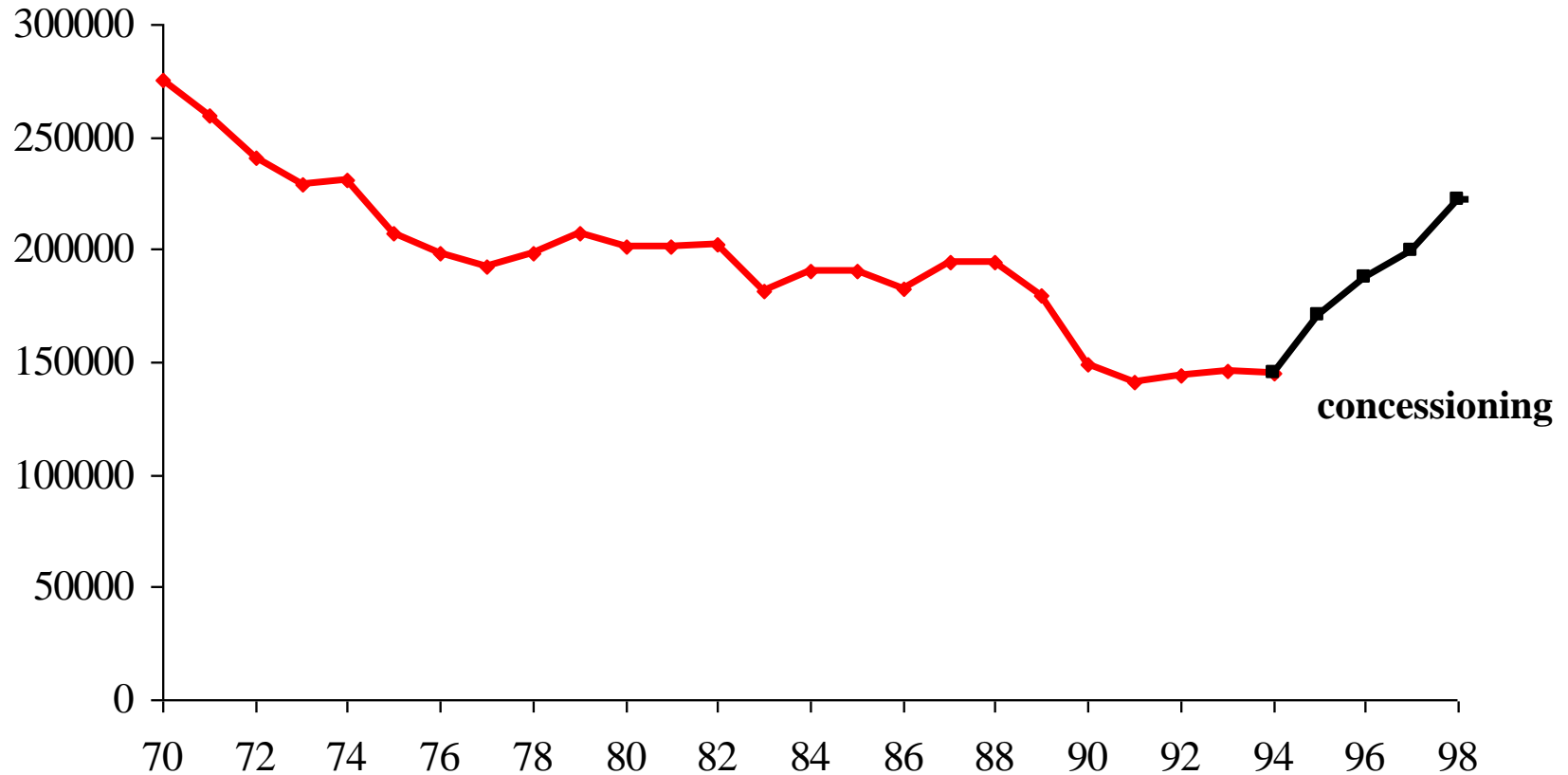


World Bank/EBRD/IFC or other IFI Roles

- **Finance construction**
- **Repair/rehabilitate to assist transaction**
- **Environmental cleanup**
- **Human transitions:**
 - » **Redundancy/retirement**
 - » **Retraining**
 - » **Relocation/resettlement**
- **Partial guarantees (risk or credit term)**
- **Technical assistance**
 - » **Packaging and preparing studies**
 - » **Marketing**
 - » **Advice (economic, financial/legal)**
- **Process management and results delivery (IFC)**
- **Investment in operators (IFC/EBRD)**

Buenos Aires Metro Passengers: 1970 to 1998

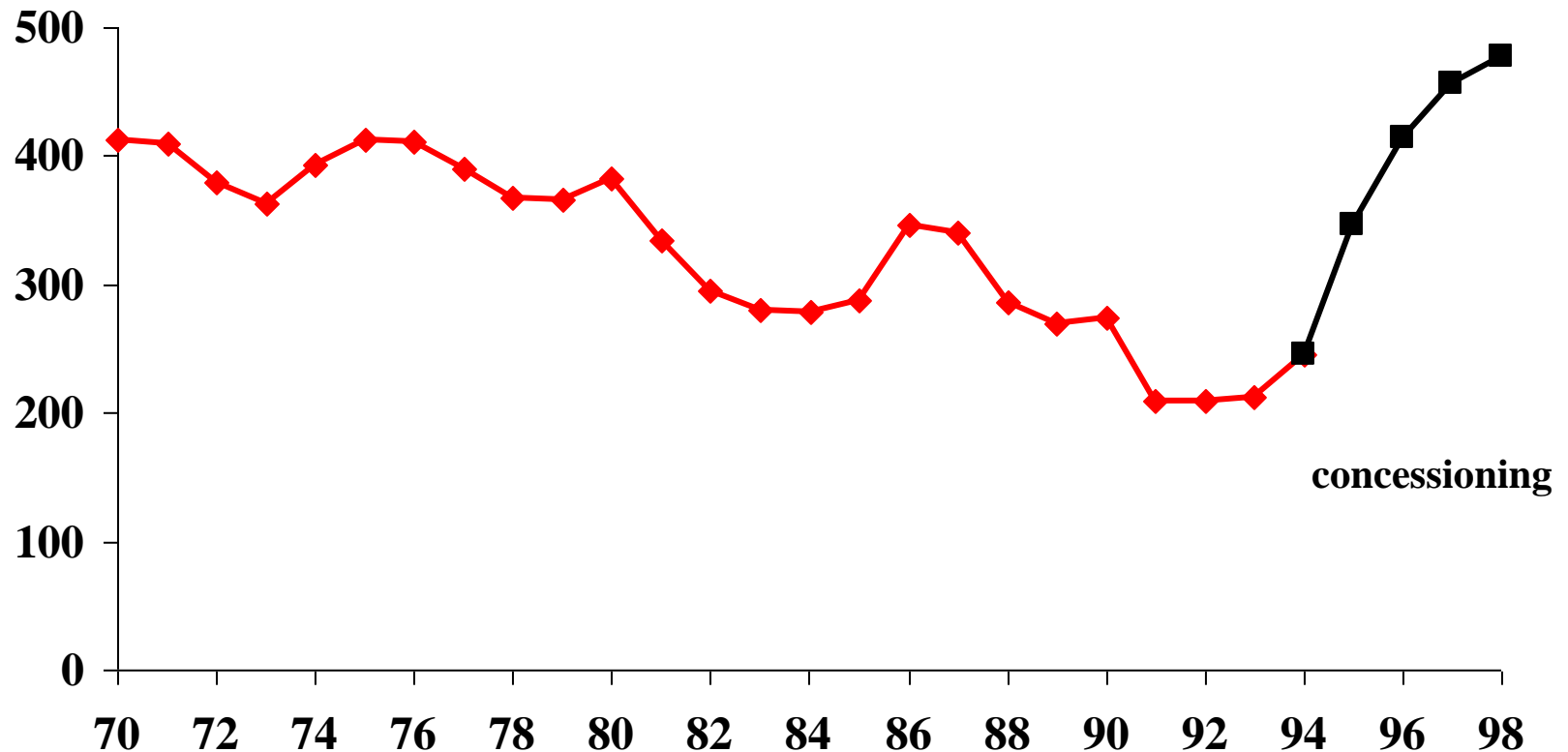
(000 passengers)



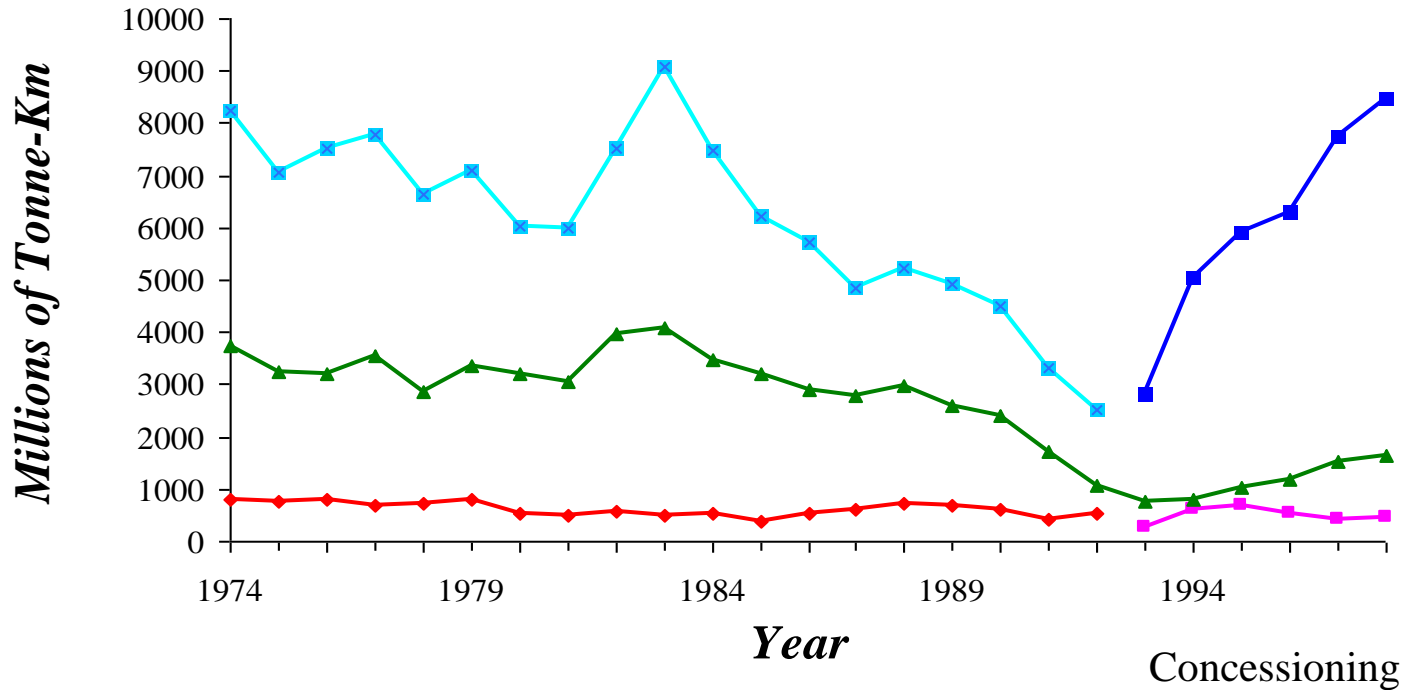
Public/Private Partnerships in Railways

Suburban Rail Passengers in Buenos Aires

(millions of passengers)

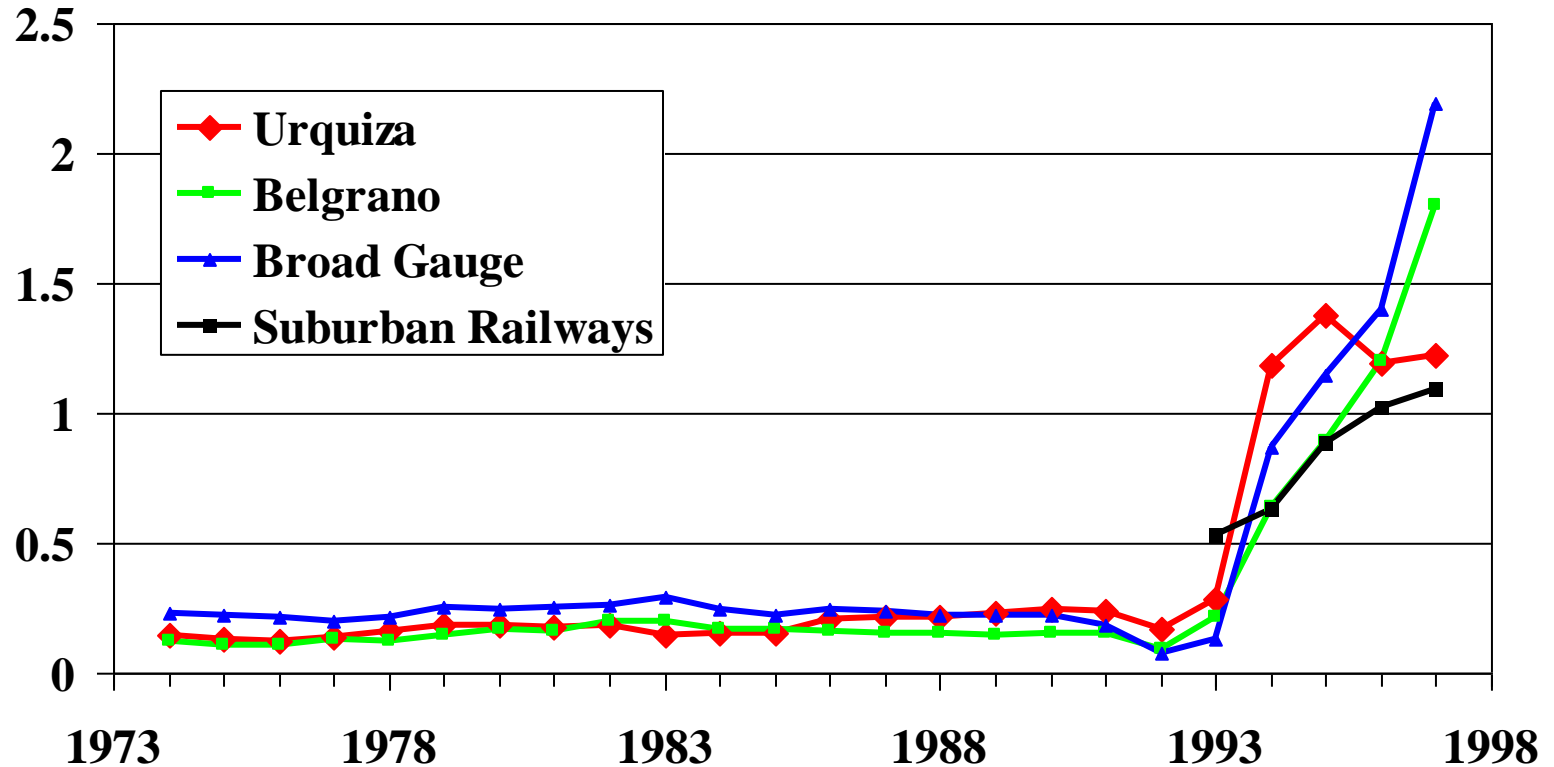


Argentine Rail Freight

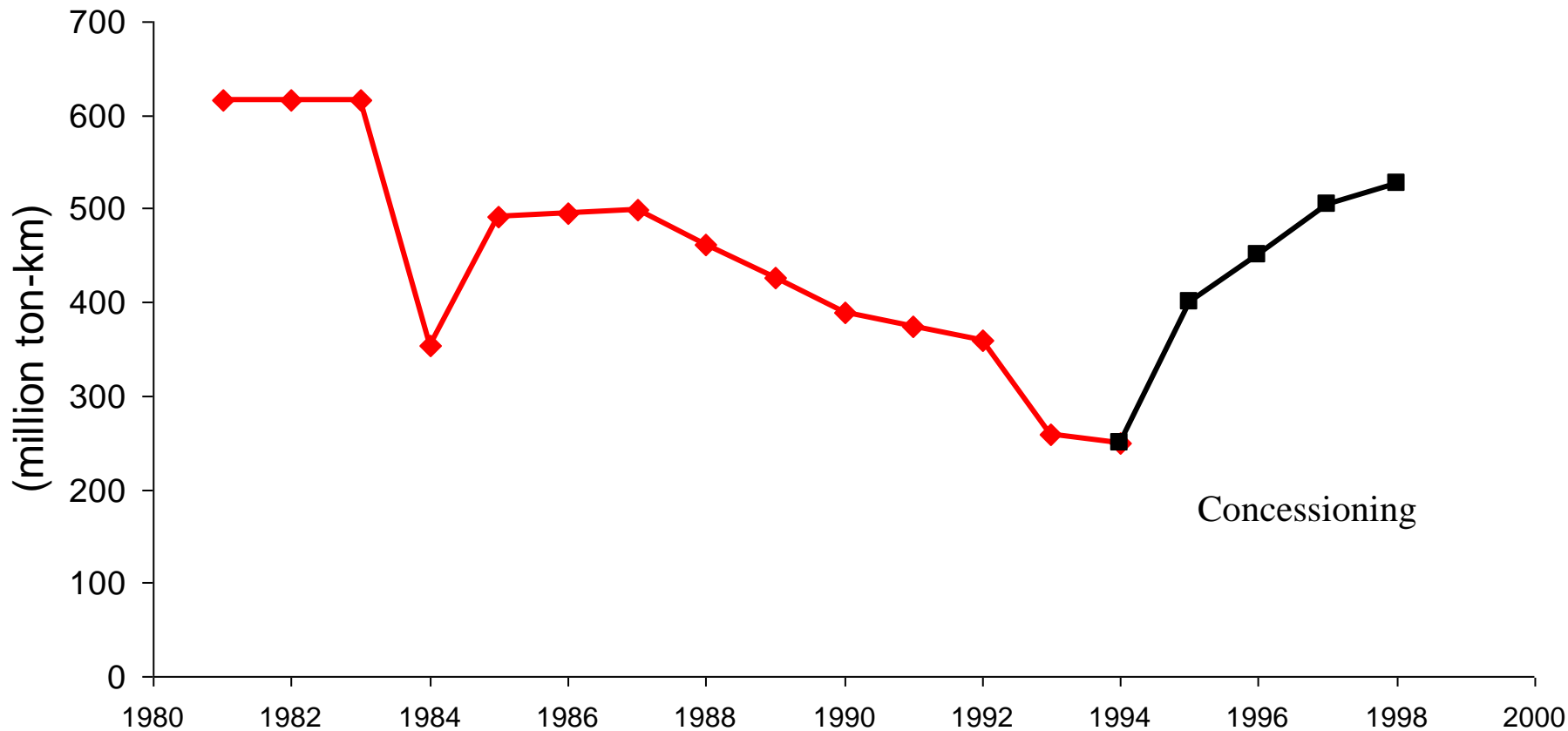




Labor Productivity in Argentina



Rail Freight Growth in Cote d'Ivoire/Burkina Faso

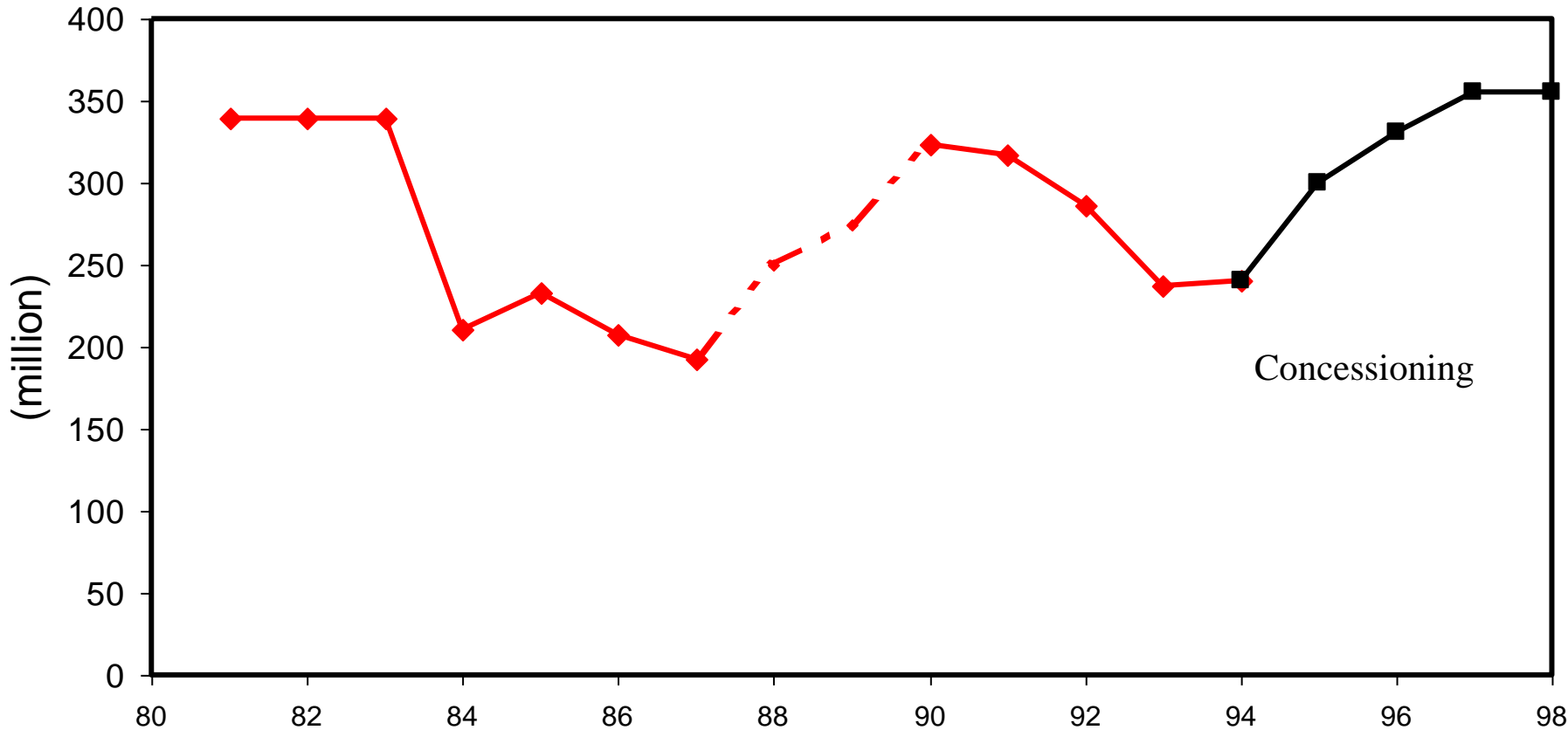


No data is available for 1988 and 1989

The concessionaire took over in October 1995 and a full year has been extrapolated from the first nine months.




Rail Labor Productivity: Cote d'Ivoire/Burkina Faso

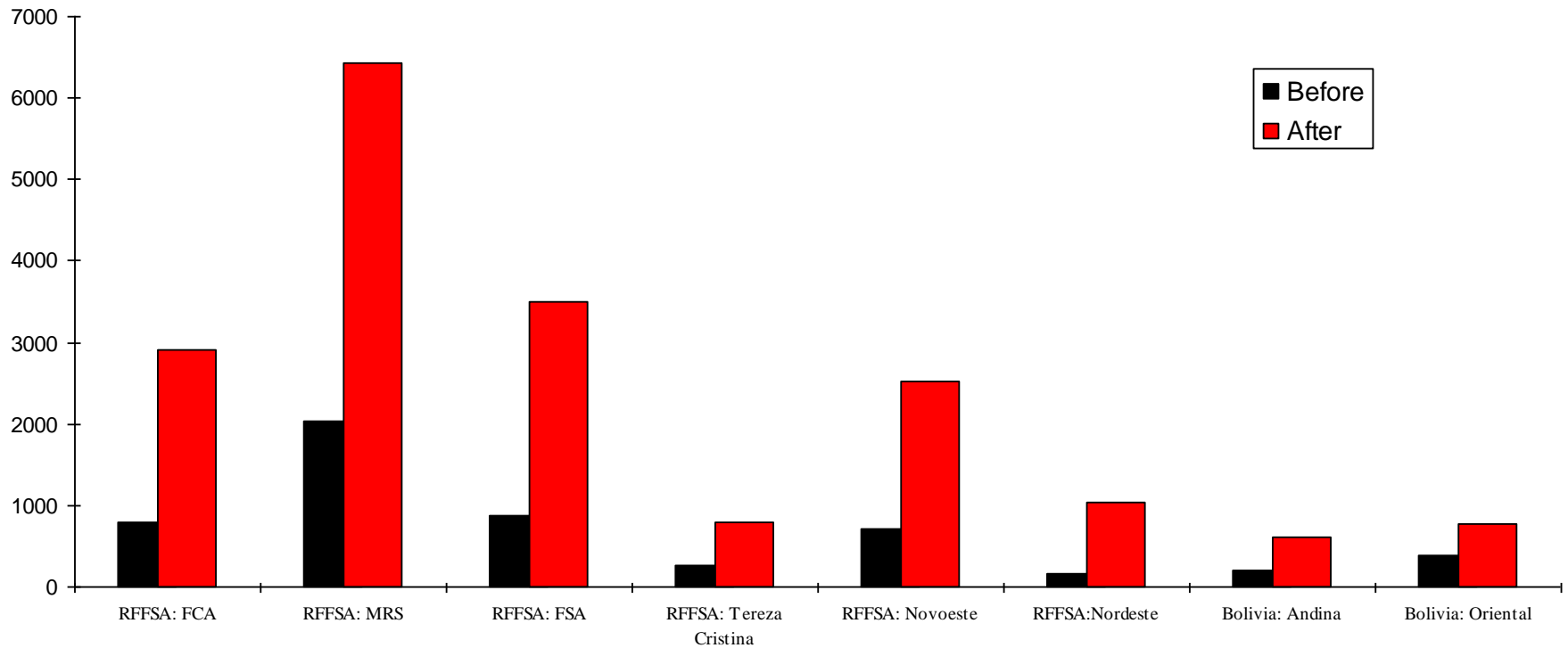


No data is available for 1988 and 1989

The concessionaire took over in October 1995 and a full year has been extrapolated from the first nine months.



Rail Labor Productivity in Brazil and Bolivia Before and After Concessioning (000 TU/Employee)





Rail Freight Tariffs in Brazil Before and After Concessioning (R\$/000 T-Km)

