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Guidelines for Railway Concessions

Southern Africa Transport and Communications Commission Technical Unit
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Contents

| | |
|---|-----------|
| PREFACE | i |
| 1. INTRODUCTION | 1 |
| RAILWAY CONCESSIONS | 1 |
| OPTIONS | 2 |
| Vertically Integrated Concession | 2 |
| Functionally Separated Concession | 2 |
| Concession for Specific Service | 2 |
| Joint Venture Concession | 2 |
| Single Transborder Concession | 3 |
| 2. RATIONALE FOR CONCESSIONING OF SADC RAILWAYS | 4 |
| 3. OBJECTIVES OF CONCESSIONS | 5 |
| 4. MAIN CONCERNS OF GOVERNMENT | 6 |
| 5. SALIENT FEATURES OF A RAILWAY CONCESSION CONTRACT | 9 |
| 6. PREPARATION FOR A CONCESSION | 13 |
| 7. PROCESS OF CONCESSIONING | 15 |
| PREQUALIFICATION OF BIDDERS | 15 |
| EVALUATION CRITERIA AND BID EVALUATION | 15 |
| Highest Payment to the Government | 16 |
| Highest Level of Investment | 16 |
| Highest Number of Employees Retained | 16 |

| | |
|--|-----------|
| CONTRACT NEGOTIATION | 17 |
| TRANSFER OF ASSETS TO CONCESSIONAIRE | 17 |
| TRANSFER OF RESIDUAL ASSETS AND STAFF AND WINDING DOWN OF PREVIOUS ENTITY | 17 |
| 8. REGULATION OF CONCESSIONS | 19 |
| 9. LESSONS FROM RECENT EXPERIENCE IN RAILWAY CONCESSIONING | 20 |
| ARGENTINA | 20 |
| BURKINA FASO–CÔTE D’IVOIRE | 21 |
| 10. CONCLUSIONS | 23 |
| CURRENT APPROACHES | 23 |
| CONCESSIONING | 23 |
| Flexibility, Speed, and Effectiveness | 23 |
| Risk Sharing | 23 |
| Tailored Approach | 24 |
| Equitable Contracts | 24 |
| Long Term | 24 |
| Thorough Preparation | 24 |
| Competition | 24 |
| Financing | 25 |
| FINAL WORD | 25 |

Appendix. Summary Information on Freight Rail Concessions

Preface

The Southern Africa Transport and Communications Commission (SATCC), with financial assistance from the U.S. Agency for International Development (USAID), in 1996 commissioned the Study on SADC Railway Restructuring Options (SARRO), conducted from June to October 1996. The study team reviewed the success of the SADC railways' initiatives towards achieving commercialisation. Later the team researched the principal issues and restructuring options available to SADC railways, the international experience with railway restructuring, and the application of railway concessioning to the region. At the SADC Railways Policy Options Workshop, held 9–11 September 1996, in Pretoria, papers were presented by the SARRO consultants, a representative from the World Bank, and others.

This report provides brief guidelines for railways considering concessioning and was prepared by SATCC-TU officials SMAK Kaombwe, Godwin Punungwe, Remmy Makumbe, and Donald Fritz and SARRO team members E.M. Hachipuka, S. Kasy Aiyar, and J. Sondhi.

1. Introduction

State-owned railways in most countries are in deep financial trouble. Developing countries are most adversely affected because their economies are caught in a vicious circle in which the state is no longer able to support railway deficits, leading to the inability of the railways to maintain assets. Inadequate maintenance of assets in turn results in poor service and an adverse effect on the economy.

Privatisation, through the highly flexible instrument of concessioning, appears to offer a practical way of improving railway services with minimum financial burden on the state. However, a concession is a complex contract involving extensive preparation. Each concession is unique and is tailored to fit specific, well-defined objectives, as well as to address concerns of the government and other stakeholders. Experience has shown that considerable external skills and support are required for the preparation, bidding process, and implementation of the concession agreement. Assistance is necessary to provide skills not normally available in the railway or government and additional capacity to deal with bursts of specialised activities in different stages of the concessioning process. Recent experience with railway concessioning has succeeded in reducing the financial burden on the state while significantly improving traffic levels and the performance of the railway.

This report provides brief guidelines to railways and governments considering concessioning.

RAILWAY CONCESSIONS

Concessions are a mechanism through which a government, while retaining the ownership of a railway, transfers to a private concessionaire the operation of the entire railway, a portion of the railway system, or a function of the railway for an extended period. The concessionaire carries both the investment cost and commercial risks and is responsible for financing rehabilitation or upgrading of old fixed assets and the acquisition of new fixed assets. Normally, these new assets revert to the government at the end of the concession.

The concessionaire pays a fee for the use of assets and makes a commitment to maintain them. Normally the concessionaire has freedom to fix tariffs and other commercial conditions. The concessionaire often furnishes a bond to support a commitment for investment.

One of the features of concessions is that the initial capital cost for taking over the operation of the railway is much less than an outright purchase. This broadens the market for private sector participation and enhances competition. Furthermore, implementation of the concession option is simpler and takes much less time than the sale of a railway.

The conditions of the concession are described in a concession agreement or contract, wherein the government or the landlord railway defines the specific rights of the concessionaire (generally a private company), the period of the concession, and several other features, including the objectives of the grant and the allocation of risks.

OPTIONS

Considering the prevailing environment and the objectives of any parastatal railway, a decision will be made about the concessioning option considered most suitable. Some of the options that could be considered are discussed in the following paragraphs.

Vertically Integrated Concession

In a vertically integrated concession, almost all the railway functions are the responsibility of a single concessionaire. This option is particularly appropriate for comparatively small railways, especially if they require some initial investment. The concessionaire may prefer to carry out various railway functions using the services of a contractor rather than its own staff. For example, track or locomotive maintenance might be contracted out. The railway concessions in Argentina are of this type, and the concessionaires have the full responsibility for rail operations and rail asset renewal, including all railway functions. When a vertically integrated concession applies to the entire system, it is generally the government that enters into a concession arrangement with the concessionaire. When only a branch line is involved, the railway itself might enter into the arrangement with the concessionaire.

Functionally Separated Concession

The concession might be limited to one, two, or three of the four major railway functions (train operations, track maintenance, equipment maintenance, and sales and marketing). A possible choice is a concession covering functions other than infrastructure provision and maintenance. The concessionaire maintains equipment, markets railway services, and operates trains. The scope of a functionally separated concession ranges from assuming complete responsibility for system infrastructure or complete responsibility for operations to assuming responsibility for only a single service in a single area, such as passenger commuter services in a particular city, or for a single rolling stock maintenance facility.

Concession for Specific Service

The concession may cover only one service (e.g., freight trains or container trains) on the whole railway, or on only a part of the system. This option is suitable for a railway that wants to provide freight and passenger services through separate arrangements. For example, passenger services suffering losses can be operated through a government entity, and freight and multimodal services can be operated through a concession under competitive conditions.

Joint Venture Concession

The joint venture concession is an option that pertains to the type of concessionaire. The concessionaire could be a joint venture in which the private sector partner has at least a 51 percent share, with a minority share being retained by the public entity that owned and managed the railway before the concession. A joint venture arrangement could also involve other stakeholders, such as major customers and forwarding agents, as minority shareholders. The private sector partner assumes managerial control of the concession and brings in an agreed amount of investment to improve assets and operations. The public entity may not bring any cash to the joint venture but may transfer equipment instead. This concession option enables the public entity to participate in the management of the railway through its members on the board of directors, and in case the concession is unsuccessful, the public entity is in a position to resume management of the railway. The participation of other

stakeholders in the joint venture arrangement would help the venture by bringing in steady business and placing greater emphasis on customer service.

Single Transborder Concession

In cases in which the viability of a railway depends on the performance of the whole corridor spanning across an international border, a single transborder concession may be most appropriate. A railway concession for Burkina Faso and Côte d'Ivoire is a recent example of a transborder concession serving two countries. This concession was awarded to a consortium of a private sector shareholder (51 percent), two governments (15 percent each), railway staff (3 percent), and a local investor (16 percent).

2. Rationale for Concessioning of SADC Railways

International experience and a recent review of restructuring options for SADC railways has led to the conclusion that some type of privatisation is essential to enable the railways to achieve sustainable commercial viability. Of the various options for privatisation of railways, concession is a preferred option, although other privatisation options are also considered. It is perceived that concessioning will yield substantial benefits in several areas, such as autonomy and freedom from political pressures, access to capital, business orientation, private sector management culture, strongly motivated management and work force, financial turn around in a minimal amount of time, and the ability to meet the challenges of a competitive and changing market. These benefits have eluded the railways in the SADC region despite the ongoing internal restructuring efforts under way in the framework of government-owned parastatals. Other reasons that make concessioning a preferred option include retention of state ownership; award of concessions through a transparent, competitive, and contestable process; minimum state investment before privatisation; short preparation and contract finalisation periods; and the flexibility of the concession instrument.

However, concessioning arrangements are complex contracts. To achieve the objectives of the government through concessioning, it is necessary to identify the risks of and the special skills required for preparing, evaluating, awarding, and administering the complex contracts of concessioning. In view of the necessary specialised legal and technical skills, which are usually not available within the government system, outside consultancy assistance is usually necessary in a range of areas. The need for external inputs is crucial because the volume of such inputs varies considerably over time, and large volumes of specialised inputs may be required for short periods. Recent experience in concessioning in both developing and industrialised countries (e.g., Argentina, New Zealand, and the United Kingdom) has demonstrated the importance of the role of consultants in speedy and successful implementation of concessioning.

3. Objectives of Concessions

The government or its parastatal railway or both generally want the concession contract to be designed to achieve the following objectives:

- To provide competitive, economical, high-quality service to support the economic development of the country.
- To reduce, and preferably eliminate, subsidies.
- To maximise revenue received from the concession.
- To operate in a competitive environment and not exploit railway customers.
- To downsize the labour force in an orderly fashion with a minimum of hardship and to provide the retrenched surplus staff fair severance compensation and maximum assistance for securing alternative employment.
- To effectively monitor and regulate safety and environmental aspects.

It is not always possible to achieve all of these objectives. A feasibility study often helps to determine the extent to which the desired objectives can be achieved. It is generally possible, however, for the government or the parastatal railway to arrive at an optimal design for a concession through careful review of the possible financial and management options, thereby maximising progress towards reaching the desired objectives. Establishing a regulatory authority before the completion of the concessioning process, with well-defined statutory powers, will go a long way towards ensuring that safety and environmental aspects are monitored adequately.

4. Main Concerns of Government

Experience has shown that it is advisable to assess government concerns about concessions and to incorporate appropriate measures to address them early in the concessioning process. It is difficult, if not impossible, to address such concerns after the conclusion of a concession agreement. Some of the concerns and possible approaches for the avoidance of problems are discussed in the following paragraphs.

- **Loss of control over a strategic institution.** In most countries, with the development of road transport, the strategic importance of railways has diminished considerably. Specific conditions in the concession agreement that ensure priority to designated traffic in periods of emergency (e.g., food grains during a famine) and government permission for actions perceived to be against the national interest can address such concerns. Award of the concession to a joint venture in which the government has a minority share and one or more seats on the board of directors is another possible remedy.
- **Service deterioration or discontinuance.** Such a problem is more likely for services that are not remunerative (e.g., passenger services). Provisions that specify the minimum services that will be provided and penalties for failure to do so can be included in the contract. For example, for passenger trains, minimum service frequency and percent on-time arrival and maximum cancellation levels might be specified.
- **Deterioration in the quality of infrastructure.** The government is sometimes apprehensive that the concessionaire might neglect the rehabilitation of infrastructure. A possible measure for avoiding such a possibility is the establishment of a dedicated depreciation fund to which the concessionaire will contribute an agreed amount annually for the exclusive purpose of rehabilitation and overhaul of infrastructure. Any balance in the fund at the end of the concession reverts back to the owners of the railways. A similar fund could also be established for maintenance of infrastructure. The concession agreement must clearly stipulate the standards to which infrastructure is to be maintained throughout the concession period and the required condition of infrastructure at the time of transfer back to the government. Periodic inspection by an independent authority using an agreed method of evaluation of condition (e.g., track recording car) can provide adequate assurance that the quality of infrastructure will be maintained. Penalties for failure to adequately maintain infrastructure should also be specified.
- **High cost of transport and monopoly abuse.** This concern applies where competition by another mode or route is absent. The contract should permit access to another operator, at predetermined fees for track use, to guard against monopoly abuse by the concessionaire. Routes or commodities for which market competition is inadequate may be identified and periodic review undertaken to check excess profits.
- **Subsidy for public service obligation.** Two approaches are available when a government wants the concessionaire to provide unremunerative services for social or political reasons:

1. The government or the parastatal railway might want the concession to cross-subsidise profitable and unprofitable services. This method lacks transparency.
 2. The government enters into a separate agreement for the provision of services suffering losses and subsidies are clearly identified. The contract is normally quite clear on the subsidy payable by the government for public services at prices below cost (PSO) and concessionaire is provided a means for seeking redress should the government fail to abide by the terms of the agreement. The World Bank's partial-risk guarantee facility, for example, might be invoked in the event that the government would fail to pay the contracted subsidy to the concessionaire.
- **Safety and liability for accidents.** A regulatory authority to take care of safety and environmental aspects must be in place before the concessioning process is completed. The concessionaire's liability for accidents must be clearly defined in the agreement and can be enforced through normal legal processes. Enforcement of agreed standards for safety (and maintenance) can be ensured through random checks by a regulatory authority and annual inspection by an independent expert.
 - **Traffic growth beyond projections and windfall profits.** It is not easy to project with any degree of accuracy the traffic volume that will be carried by the railway over the comparatively long period of the concession. The growth of traffic will depend essentially on economic development of the country and the region (market growth) and the competitiveness, quality of service, and capacity offered by the railway (market share). The guaranteed concession fee that would be payable irrespective of the traffic level actually carried could be fixed in relation to the anticipated traffic levels on the basis of managerial and operational improvements expected as a result of the concession. A provision for the payment of an additional concession fee, linked with traffic levels above the anticipated level, is a satisfactory mechanism to ensure that the government receives part of the profits from increased traffic on the railway.
 - **Staff redundancy.** Need for downsizing of staff is not unique to concessions and is dictated by the objective of attaining viability. It is useful to downsize staff before concessioning. The terms for redundancy payments for staff reductions by the concessionaire, in case the concessionaire decides to reduce staff even further, should be specified in the agreement to ensure that redundancy payments are comparable to those paid earlier by the government. The concession agreement generally specifies the minimum proportion of the staff to be employed by the concessionaire that must be selected from the staff of the parastatal railway.
 - **Low priority to transport business.** A problem of low business priority given by a concessionaire to transport services can arise when the concession agreement permits the concessionaire to engage in activities other than rail transport on leased land and facilities. For example, the concessionaire might engage in real estate development. Should the activity become more profitable than rail transport, a problem of inattention to transport services and market development could arise. Many concessions limit activities other than rail transport to encourage the concessionaire to focus on transport business. Minimum rail transport services that the concessionaire must provide should be specified in the agreement. Given its considerable potential value, real estate development should be treated by the government as an asset to be traded for the transport service required.

- **Failure of the concession.** This concern is addressed by a careful screening of prospective bidders so that only those with good records and credible business plans are allowed to bid. A joint venture could also help if the agreement has a provision for the government to take over the management of the railway if the concession is deemed to have not met specified criteria. A mechanism for the quick resolution of disputes also needs to be included in the agreement.
- **Failure of the concessionaire to return concession assets in agreed condition.** An appropriate remedy should be included in the agreement, along with a mechanism for quick resolution of disputes. The usual legal remedies will be available to the government in case the concessionaire fails to abide by the terms of the agreement to return the assets in satisfactory condition at the termination of the concession. If more assurance that assets will be returned in good condition is required, the concession agreement can stipulate that the concessionaire set up a facilities maintenance and replacement account. If money placed in the account is used for the specified purposes, then the assets are likely to be kept in satisfactory condition. If, however, the concessionaire fails to make full use of the funds and asset condition deteriorates, then the government receives the unexpended funds in the account at the concession termination date.

5. Salient Features of a Railway Concession Contract

The contract for a railway concession will be in force for an extended period and must therefore be designed carefully so that various aspects of the working of the concession and the concerns of all parties to the concession contract, as well as the concerns of labour and other stakeholders, are addressed adequately. A good contract also conveys the objectives of the concession in clear terms and reduces the potential for misunderstandings and later disputes between the contracting parties. In the following paragraphs, some of the more important features of a railway concession contract are discussed.

- **Duration.** The concession is granted for a fixed period, and at the end of the specified term, most assets, including those financed by the concessionaire, as well as the right to carry out the activity, return to the public entity or government. The duration of the contract is normally related to the time the investors need to recoup their investment. It is recognised that it will not be possible to amortise fully all the investments made, especially those made towards the end of the concession period. A provision could therefore be considered for a payment to be made by the public authority to the concessionaire, on the basis of an independent evaluation, for assets acquired in the last few years of the term of the concession. Such a provision would be aimed at encouraging the concessionaire to make appropriate investments throughout the period of the concession and to ensure that proper maintenance of facilities is provided throughout. Provision for possible renewal of concession is sometimes made in the agreement. The government generally reserves the right to terminate the contract before the end of the normal term, and the concessionaire is accorded protection of value of investment in the event that the government exercises its right of termination.
- **Investments.** Some investments that are considered essential for the provision of agreed level of service and need to be made initially will be clearly identified and will normally be the responsibility of the concessionaire. The concessionaire will also be responsible for making additional investments to enhance capacity and service quality to meet market needs and to bring about operational improvements, including technological upgrading to reduce unit costs. The investments required in the early part of the concession period are fairly precisely indicated. However, it may not be possible to predict investments for the entire period of the concession and later investments could be left to the discretion of the concessionaire.
- **Legal ownership.** The legal status of the assets provided by the concessionaire can vary. Normally such assets will remain in the ownership of the private operator until their transfer to the state or the parastatal railway at the end of the concession. Besides giving full control to the operator, this arrangement facilitates the financing of the concession by making these assets available as collateral. In some cases, however, assets built and financed by the concessionaire are owned by the state as soon as they are built.

- **Scope of the concession.** The scope of the concession needs to be defined. Will the concession be for a fully integrated operation (a vertically integrated and horizontally integrated concession that includes all railway functions, all parts of the railway network, and all services), or will the concession be limited to one or two functions or to a single service or facility? The concession could also extend beyond the limits of the parastatal railway system to encompass, for example, an international railway corridor, in which case the concession would involve two or more railways.
- **Links between concession fee and traffic levels.** The concession fee might consist of two elements: a fixed base fee and an element related to the traffic level, but with a minimum guaranteed fee. Such an arrangement is fair to both parties because it reduces the risk for the concessionaire in the event that traffic increase is slower than anticipated. The government is guaranteed a minimum fee related to the anticipated traffic volumes in the initial period of the concession and enjoys additional benefits as the traffic grows in later years. The concessionaire carries the normal business risk accompanying the base traffic level and absorbs the resultant loss should the actual traffic be lower.
- **Minimum service levels.** The minimum services to be provided by the concessionaire should be defined. Penalties for failure to provide these minimum services should also be specified. If it be an objective of the concession that service levels be improved within a year or two, such targets should be identified in the agreement.
- **Use of employees of the parastatal railway.** The concessionaire is generally given the freedom to decide the number of employees it wants to hire. The concessionaire could be given the right to choose employees from the ranks of the parastatal railway and to renegotiate the terms of employment and work rules. It could also be indicated that a specified proportion, say 80 percent, of the total employees of the concessionaire at any time during the initial few years of the concession must be former railway employees.
- **Applicability of existing collective bargaining agreements.** Applicability of existing agreements is a matter that must be clarified. Will the concessionaire have the right to renegotiate all such agreements? Moreover, there is a question about whether the concessionaire will be liable for payments for the past service benefits, such as accrued vacation and sick leave and pensions for the parastatal railway employees hired by the concessionaire.
- **Responsibility for the payment of severance pay to redundant staff.** This responsibility needs to be clearly defined. If the payment is to be made by the concessionaire, the level of payment should be negotiated by the government or the public entity with employees' unions and be specified in the concession agreement. The decision could be that the severance pay will be financed by the government with funding from international agencies. (Although the negotiation of the concession agreement will normally, and desirably, be between the two parties to the agreement, the position of the government or parastatal railway on all labour matters should reflect discussions and agreements with the railway labour unions. The concessionaire should never be surprised to learn after entering into a concession arrangement that labour had no input or knowledge of the government or parastatal railway positions on these matters.)

- **Deregulation of tariffs.** In an environment of sufficient competition, the freight tariff would normally be completely deregulated and the concessionaire given full freedom. There may be a requirement that the maximum tariff by commodity is filed with an appropriate government authority. Under conditions of some degree of monopoly power (e.g., in the case of passenger services), tariffs will need regulation and maximum fare and the proportion of accommodation in lowest class could be specified. (To ensure that competitive situations exist and that tariff regulation is thereby rendered unnecessary, the government should make every effort to permit competitive access. In the SADC region, this objective is in line with the language of the Protocol on Transport, Communications and Meteorology. Competitive access is desirable regardless of whether concessions are vertically integrated or functionally separated.)
- **Transfer of assets and responsibility of rehabilitation and maintenance.** The concessionaire will receive from the public entity the fixed infrastructure of the railway. It may also receive, under a separate agreement, a specified number of locomotives and rolling stock generally adequate to meet the requirements of service. The concessionaire will be responsible for maintaining infrastructure, equipment, and other assets in good working condition during the concession period and for returning them to the government or public entity at the end of the period of concession in satisfactory condition. It may be required to overhaul or rehabilitate some or all such equipment or invest in new equipment to provide an improved level of service. It may also be required to (1) construct new track to serve new customer requirements or (2) invest in rehabilitation of track, signalling, communication equipment, and information systems or (3) both. Requirements must be defined precisely. The criteria and the agency for determining the condition of assets during and at the end of the concession should also be defined clearly to avoid disputes. A provision in the contract should exist to enable the government to assess and recover from the concessionaire the cost of repair of assets that might have been neglected in the closing years of the concession.
- **Establishment of a depreciation fund for the overhaul and rehabilitation of assets.** The depreciation fund is an option for ensuring that the railway system is satisfactorily maintained throughout the concession period. A specified amount could go into such a fund for exclusive use for overhaul, rehabilitation, and rebuilding of assets, and any unused balance in the fund would revert to the government or the public entity along with assets at the end of the concessioning period. It will be necessary to define clearly the normal maintenance activities to be performed by the concessionaire that will not be funded by the depreciation fund.
- **Possible deterioration of assets.** To preclude disputes, the bidders should be warned that the condition of railway assets could deteriorate in the interval between the prebid inspection and the commencement of the concession, and traffic levels could also change. These possibilities should be taken into consideration by the bidders in the preparation of bids.
- **Minimum railway management and operational experience.** The experience required of bidders should be specified. It could further be specified that if the bidder does not have experience in railway management and operation, it must form a joint venture with a party having such experience.
- **Business risks.** These risks shall be assumed by the concessionaire, and no guarantees for minimum traffic or revenue will be offered. However, the concessionaire will not be in a position to carry any political risks, and in circumstances in which political commitment to

concessioning is perceived to be weak, the agreement should contain a provision that allows the concessionaire to terminate it in the event of significant policy changes.

- **Incentives.** A strong incentive for the concessionaire to exceed the agreed service standards for passenger services is desirable. The concessionaire might, for example, be allowed to increase maximum fares if all service standards (e.g., number of cars dispatched per day, maximum proportion of delayed and cancelled trains, equipment availability, and failure rates) are met or exceeded.
- **The extent of inclusion of real estate in the concession.** One option would be to exclude real estate from the concession, except that the station buildings with commercial space would need to be included. The property development rights at railway stations are normally very lucrative and would enhance the concession's value significantly if included.
- **Insurance liability.** The insurance liability of the concessionaire needs to be defined.
- **Indexing mechanism.** The indexing mechanism for tariffs and payments to be made by the concessionaire should be stated in cases in which indexing is included in the contract.
- **Value of performance bond.** The value of the performance bond to be provided by the concessionaire could be related to such factors as the level of penalties that could be imposed for failure to comply with agreed contract conditions and the value of investment required of the concessionaire.
- **Terminating clauses.** It is important to include in any concession contract terminating clauses that permit an orderly end to the concession. The modalities of the transfer of assets and rights for the operation of railway back to the government should be defined. It is also important that conditions under which the contract will stand terminated before the expiry of the normal term of the concession are defined clearly. Such conditions could include failure of the concessionaire to make agreed investments in the stipulated period or its failure to meet the agreed service requirements. Similarly, the concessionaire could have the option to terminate the contract under specified conditions (e.g., government failure to honour its commitments).

6. Preparation for a Concession

A variety of skills is required to (1) define the objectives of the concession, (2) tailor each feature of the bidding document and the concession agreement, and (3) carry out the preliminaries required before the concession takes effect. Governments and railways are normally not familiar with the legal and administrative details of such instruments and need to take special care to protect their interests. However, it is also necessary, for the success of the concession, that the terms of the agreement are fair to both parties.

Concession of a government-owned railway has to be viewed as a fundamental change having political, economic, and social implications. The events leading to the start of the concession need to be managed in the context of management of change. The experience of railway concessions all over the world has shown that several aspects of this change need to be managed. Steps of the process leading to concessioning are as follows:

- There must be a **clear political commitment** for privatisation or concession of the railway. The political commitment is normally motivated by a financial crisis and the inability of the government to provide funding for investment and the operating losses of the railway. In most cases enabling legislation is required to allow privatisation or concessioning.
- The **national goal and objectives, as well as expected benefits for restructuring through concessioning**, must be clearly established while ensuring that the conditions for attracting potential concessionaires are not jeopardised. Sustainable acceptability of the concessioning will be possible only if the concession is designed and executed to include conditions to ensure accrual of expected benefits by the government, principal stakeholders in the economy, customers, and the public.
- The railway itself cannot manage the process because railways are rarely able to break away from the status quo and make fundamental changes. A small and lean **intermediary organisation**, independent of the railway and with adequate financial and human resources, is therefore essential. The agency should be led by a person who is politically acceptable, has a fresh perspective, and is committed to the process of change. This person should be assisted by a few professionals with expertise in legal matters, railway concessioning, and finance.
- **Adequate funding** for the functioning of the intermediary agency must be secured.
- The shortest possible **cycle time** for completing the process should be strived for to maximise the savings resulting from eliminating the losses incurred by the railway directly and the economy indirectly.
- It is necessary to **significantly restructure** the railway before putting it up for concessioning. Private operators will be interested in taking up a concession and make investments only if they see a reasonable chance of a turnaround and profitability. The aim of restructuring is to enhance the future viability of the railway. Preconcessioning restructuring could include splitting the railway into defensible market segments, shedding of noncore business, and

downsizing of the labour force. This requires a review of the railway market to identify defensible segments and those that need to be given up. In addition, the market segments that incur losses but are socially desirable should be determined so that they can be separated for operation as PSO and funded by the government. The size and scope of the PSO services will depend on the level of funding that the government is able to provide.

- **Funds for restructuring** before concessioning can be obtained from international agencies. The World Bank, for example, has funded new construction, rehabilitation, labour training and staff redundancy schemes, and technical assistance in concession design, packaging, and marketing when considered essential to the success of concessions. [Care needs to be taken in making investments before concessioning, however. Generally, such investments should be limited to those that are absolutely essential for generation of interest in a concession. Anything more (e.g., investments that might be desirable in the short term) should be left to the concessionaire to analyse and decide whether to pursue.]
- A **business plan** must be prepared that indicates the definitive strategy of the railway and the projected profitability of the business.
- **Revaluation of assets** and redefinition of the capital structure is required to ensure that the enterprise carries only as much debt as it can service.
- The **legal implications** regarding the Railway Act, land use, labour, tariff deregulation, line closure, and the like must be studied.
- The **objectives and design of the concession** must be established, keeping in view factors such as operation, market, and financial results.
- A **new entity** with sufficient assets and staff to operate the segment of business selected for concessioning must be established. The surplus assets and staff are generally retained by the original railway.
- An **information document** should be prepared for prospective bidders that indicates the business plan, investments expected, condition of infrastructure and equipment proposed to be transferred to the concessionaire, staff, period of the proposed concession, and the like. This document should be as clear as possible and should indicate the proposed allocation of responsibilities in the concession. The expected equity stake of the concessionaire should be indicated and should be large enough to ensure that the concessionaire will have a long-term commitment in the business and will not try to opt out of the concession in the face of temporary difficulties.
- Consultants should be appointed to assist in the **preparation of bid documents**, marketing, evaluation of bids, negotiation of contract, and transfer of assets to the selected concessionaire.
- Mail, advertisements, road shows, and other modern communication channels should be used to **market the concession**.

7. Process of Concessioneing

This section discusses the steps considered necessary for a successful contracting process and an award that has good prospects for being sustainable. The underlying theme should be to promote competition and transparency and to make the process contestable. Effective competition will occur only if a reasonable number of bids is received. The concession must be perceived by bidders as an attractive business opportunity on the basis of the level of profit and risk associated with the project. Bidder interest will also depend on the quality of the concession document, various features and the structure of the proposed concession, and the marketing effort made.

International experience has shown that the process is not a quick one, and depending on the local conditions and preparatory work undertaken, the time from initiation of the contracting process to the commencement of railway operation under the concession may vary from 6 months to 2 years or more.

PREQUALIFICATION OF BIDDERS

A prequalification process is recommended to ensure that only bidders that have satisfactory experience and competence in railway management, credible business and investment plans for the railway, and access to adequate funding are invited to submit detailed bids. The prequalification process also helps in preparing a short list of bidders so that the time and cost for bid evaluation is minimised. At this stage the bidders are requested to submit broad-based plans for the railway. It is necessary that the criteria for evaluation of bids and short listing of bidders be stated clearly in advance. For example, the experience of the bidder in operation and management of railways and the track record of principal personnel could give a fair indication of the capability of the bidder. Similarly, an indication of the financial standing of the bidder and funding sources will be useful in evaluating the ability of the bidder to provide investment and working capital. To ensure a long-term commitment, the minimum proportion of equity in the capital structure of the bidder may be specified. The bidders may also be required to demonstrate that they comply with all legal and other stipulations of the bidding documents.

The bidders on the short list are invited to submit detailed bids for the concession. An opportunity for the inspection of railway facilities is also afforded to the prospective bidders.

EVALUATION CRITERIA AND BID EVALUATION

The bid evaluation criteria must be, and be perceived to be, fair and transparent, both by the bidders and the public. This transparency will be of significant assistance in generating interest amongst the prospective bidders and other stakeholders and will also enhance the credibility and acceptability of the contracting process. To the extent possible, the criteria and methodology for bid evaluation should be simple and clear. Some of the factors that could be included in the evaluation criteria are discussed in this section. In case of multifactor evaluation criteria, each factor may be given a different weight. It is, however, essential that the evaluation factors and respective weights be announced when inviting bids. Even when this is done, it is difficult to eliminate a certain degree of subjectivity and consequent criticisms in a multifactor point evaluation process. Argentina, for example, gave up weighted

multifactor point evaluation techniques after the first series of concessioning bids in the face of allegations of unfair practices. The lesson is clear that complex weighted multifactor and point systems should be adopted only where they are inevitable and simpler systems cannot accomplish reasonably good comparisons.

Bid selection factors normally include (1) highest payment to the government, (2) highest level of investment, and (3) highest number of employees retained.

Highest Payment to the Government

This criterion is most suitable when monopoly is not a problem. In the case of freight traffic, which has sufficient competition from trucking, the concessionaire has freedom to fix tariffs and is unlikely to establish monopoly prices. In this case, the award of concession to the highest bidder is most appropriate. In cases of passenger service concessions, the government may set the tariffs and seek bids for the provision of service. These concessions are frequently negative, and the selection could be based on the lowest fee payable to the concessionaire. Because the basic aim of concessioning is to improve the economic efficiency of the transport system, a strong factor in evaluation of bids must be the economic or financial returns to the state. Although experts may have some genuine differences about how to compute these returns, it is necessary that this economic factor receives high weight or becomes the single factor in evaluating bids.

Highest Level of Investment

This factor is important in cases in which significant investments are considered essential to the rehabilitation and upgrading of the existing railway. However, it becomes difficult to assess the bids on the basis of such a criterion because the investments would be spread over different periods and different discount rates could be used. Bidders also could have different perceptions about the need for investments. The best course may therefore be to specify a minimum investment to be made in the first few years of the concession, and demonstration of ability to make this level of investment be made mandatory for a bid to be considered responsive. The minimum investment level could be based on expert advice and be kept as low as possible to maximise competition and afford flexibility in investment to the successful bidder. It is expected that, in later periods, the concessionaire will make the required investments in case it sees reasonable prospects for a return on investment. It is difficult to predict the traffic levels and the market needs over a long period, and therefore long-term forecast of investment requirements should not be attempted. Experience in Argentina and elsewhere has shown that this issue is difficult to handle. To begin with, using potential levels of promised investment in the future horizon could introduce unintended and unhealthy distortions in the bid and evaluation processes. Legal provisions to bind concessionaires to contracted investments and remedial clauses (including penalties) for nonfulfillment cannot be a substitute for timely investment in arterial transport systems. There is much to be learned from the renegotiations in Argentina, where investments are being rescheduled in view of the expected growth of freight traffic not materialising.

Highest Number of Employees Retained

One of the basic maladies affecting railways all over the world is overstaffing, and steps for reducing the work force to an appropriate size are an essential prerequisite to efficiency improvement in most systems. The concessionaire will attempt to improve the efficiency of the railway and reduce the number of employees. Thus, criteria that seek to increase the number of employees militate against the broad objective of improving efficiency and productivity. Therefore, the highest number of existing

employees retained should not be a criterion for bid evaluation. However, it would be fair and appropriate to specify the minimum proportion of the employees of the concession that must be employees of the railway.

CONTRACT NEGOTIATION

After bid evaluation, the government or public entity selects a bidder to be awarded the concession. The concession contract is then negotiated with the selected bidder. The main conditions of the contract are based on the contents of the bidding document and the bid submitted by the selected bidder. However, an attempt is made to make the contract as comprehensive as possible so that it covers all aspects of the relationship between the concerned parties. The concessionaire will normally finalise the financing arrangements for funding the concession after its selection and might require reasonable time to conclude these arrangements. The concession contract is signed after both parties have complied with prerequisites.

It must be noted that negotiations are sometimes looked on with suspicion by unsuccessful bidders, the public, and financing agencies. Negotiations should never be used to reopen fundamental parameters already settled in the bid invitation packages. To do so would certainly mean that some bidders are put at a disadvantage. Negotiations on price also often invite public criticism on grounds of favouritism and unfairness. The scope of negotiations should therefore be more in the nature of supplying or receiving information essential to the performance of a contract.

If it becomes evident at any stage that there have been errors or oversights in the bidding process that have significant effects on the concession, it may be prudent to reframe the bid documents and invite new bids rather than to negotiate quick-fix shortcuts. Negotiated quick-fixes lack transparency and open the floodgates for allegations and counter-allegations; more time may be lost in such a maze than in the speedier route of retendering.

Negotiations are inevitable in the finalisation of complex contracts, but great care should be taken to ensure that they will be perceived as fair to all concerned (e.g., inclusion in the proceedings of a public figure with an untarnished image).

TRANSFER OF ASSETS TO CONCESSIONAIRE

After the signing of the contract, the assets of the former railway are transferred to the concessionaire according to the terms of the contract. Difficulties may arise regarding the condition of assets being handed over because considerable time will elapse between the bid invitation for concession and inspection of assets by the short-listed bidders and the transfer of assets. During this time the condition of assets could deteriorate significantly, and the concessionaire could seek compensation.

It is desirable at the earliest point possible to detail the procedure, process, and time frame for transferring assets and quick and simple procedures for determining any disputes. Problems of transferring assets have in some cases caused contractual relationships to sour even before the contract becomes operational. It may be that only the operational real estate is part of the concession and significant real estate in the form of buildings and land is not to be retained. It is imperative that the real estate to be transferred be listed and demarcated to prevent later disputes.

The concession becomes operative soon after the transfer of assets.

TRANSFER OF RESIDUAL ASSETS AND STAFF AND WINDING DOWN OF PREVIOUS ENTITY

According to the conditions of the contract, a significant proportion of the assets and staff will not be taken over by the concession. Arrangements must be made for orderly transfer and winding down of

the residual assets and staff of the previous entity. This task could be assigned to the previous entity or to a new entity specifically created for carrying out this task.

Satisfactory arrangements, agreements, and funding for payment of compensation to the surplus staff are of utmost importance. A mechanism for retraining and redeployment of surplus staff is most desirable and should be in place before the commencement of the concession.

Arrangements for storage and disposal of surplus assets should also be in place. Sufficient physical space should be identified and retained for parking surplus rolling stock because its disposal may take a while. The residual property and land that is not transferred to the concession will also require management or disposal.

8. Regulation of Concessions

The concession contract itself contains certain regulatory elements pertaining to tariffs, competition, performance, and the quality of service. In addition, it is necessary to monitor the concession for safety (including quality of track), consumer interests, and environmental aspects. An independent regulatory authority therefore must be established to monitor and regulate aspects that are not explicitly covered in the concession agreement. Appropriate statutory powers must be vested in the regulatory authority to enforce various obligations of the concession. It is important that all the regulatory issues are worked out before the concession is finalised because doing so later would be far more difficult. It is equally important that the regulatory authority be adequately financed and that it acquires the skills required to oversee the concessions. Governments invariably need to develop their regulatory capacity and credibility. An appropriate regulatory framework not only inspires confidence in bidders but also gives the government ability to effectively enforce the agreements with the concessionaire.

It is, however, necessary to ensure at the same time that regulatory authorities do not inhibit innovation and efficiency. Railway working rules in many countries have remained unchanged for a century and a half; regulatory authorities empowered to enforce archaic regulations can be a serious impediment to progress. Some caution, therefore, about regulatory bodies will need to be exercised. The whole set of railway maintenance, operating, and even manufacturing rules will need to be carefully revised to reflect current trends and practices, especially modern advances in materials and information technology.

Negative impacts of regulation should not be glossed over. History has shown that in the long run regulatory systems can do great harm to the systems they are intended to protect. Two possible adverse outcomes have to be guarded against:

1. **Regulatory capture.** The concessionaire sometimes can manage to “capture” the regulatory body, and instead of functioning in public interest, the regulatory body functions in the concessionaire’s interest. Capture of regulatory bodies in developing countries is rampant, and the classic capture of the Interstate Commerce Commission in the United States by U.S. railroads has been well documented.
2. **Over-enthusiastic regulator.** Examples of this problem are the environmentalists of the 1960s and 1970s in the United States and some current environmental regulators in developing countries (who have ordered the shutdown of whole groups of industries, only to let them reopen after a period of time long enough to place their viability in jeopardy). Because the changeover of railways from government operators to concessionaires is a major political, social, and cultural issue in most developing countries, it is important to remember the negative role that regulatory bodies have played in these countries in the recent past and to ensure that the new regulatory bodies are relevant. The roles of these regulatory bodies should be reviewed frequently and revised whenever necessary.

9. Lessons from Recent Experience in Railway Concessions

Several countries have adopted the concessioning route to manage their railway systems in recent years. The Appendix to this report provides summary information on five freight rail concessions—one in Africa and four in Latin America. Two concessions with significant differences in structure and process are reviewed briefly in the following paragraphs to demonstrate better ways of preparing, awarding, and managing concessions. These examples show the variety of options available for the structure and design of railway concessions and the variety of issues that need to be addressed.

ARGENTINA

One of the first countries to adopt concessioning extensively was Argentina. Argentina has a fairly large railway system with about 30 000 kilometres of railway line, and the railway is an important mode of freight and suburban passenger transport in the country. The performance of the state-run railways deteriorated progressively during the 1970s and 1980s. By the late 1980s, the physical performance had deteriorated to abysmally low levels while losing \$600 million to \$800 million annually. Several attempts at reform as a state-run railway failed.

The concessioning of Argentinean Railways commenced in 1991. The freight system was divided into six packages for concessioning on 30-year terms, with an option for a 10-year extension. The concessionaires were given exclusive use of the tracks for the period of the concession, although they were to grant access to intercity passenger operations in return for a compensatory track use fee. Concessionaires were required to hire only parastatal railway employees at the outset, although they were given freedom to employ only those necessary for operational needs. The parastatal railway made severance payments averaging about 2 years' wages to staff not hired by the concessionaires.

The government marketed the concessions worldwide and received bids for all but the meter-gauge Belgrano network (which is being rehabilitated for later concessioning). All bidders had to meet certain technical and financial requirements. Thereafter, bids for the freight networks were evaluated on the basis of the net present value of the level of "canon" to be paid to the government during the first 15 years of the concession, as well as on the basis of the quality of business and investment plans, staffing levels, the track-access fee proposed for intercity trains, and the share of Argentinean interest in the consortium. The bids were graded on a 1-to-10 scale on each of 7 criteria, with the individual scores being weighted according to the priority assigned to each category.

For the suburban passenger concessions, the bidding documents defined the minimum service to be provided (seats per hour, frequency, travel time, punctuality) and a required capital program to make up for years of neglect of maintenance. Maximum fares for standard service, with fare increases as a premium for improved services, were established. The bidders were evaluated on the basis of their financial proposal, including the required subsidy. The passenger concessions were done after some experience was gained in awarding freight concessions, and the changeover from the complex point

system to the simplified financial evaluation of bids reflected the difficulties experienced in implementing the point system.

By any reasonable measure, Argentinean railway concessioning has been successful. Substantial increases have been achieved in both passenger and freight traffic, along with significant reductions in staff, which has increased productivity and improved financial results. The outflow from the treasury of \$600 million to \$800 million per annum has been eliminated.

There are, however, some lessons to be learned. First, the market for concessioning is limited, and considerable effort had to be made to “sell” a concession to a concessionaire. After some initial faltering in the freight concessions, the Government of Argentina conducted active selling campaigns for the later passenger concessions. The result of these promotional efforts was that the passenger service concessions attracted a much better response in competitive tendering than did the earlier freight service concessions.

Second, concessioning is a complex function of many issues, and pros and cons have to be carefully weighed in formulating a good concession. Every effort should be made to make the whole process transparent and easily understood by all parties to the transaction. The first series of bids for freight concessions used a point system for evaluation with multiple objectives that appeared eminently suitable, considering the different objectives the railway was expected to satisfy. However, because any point system is largely subjective, this evaluation approach resulted in complaints of discrimination. Some criteria also appeared to have been counterproductive, for example, awarding high marks for bidders retaining the largest complement of existing staff. Albeit politically appealing, this criterion constituted an encouragement to lower productivity.

Third is the issue of investment by concessionaires. None of the concessionaires has been able to invest on the scales envisaged in the concessions because the freight traffic has not increased as rapidly as projected. Negotiations were undertaken to resolve this problem.

Notwithstanding these problems, concessioning has been able to reverse declining trends of traffic, provide better services, and save the government \$600 million or more a year.

BURKINA FASO–CÔTE D’IVOIRE

The railway between Ouagadougou in Burkina Faso and Abidjan in Côte d’Ivoire is another example of a recent concession. There are several remarkable points about this railway concession, which was awarded to SITARAIL, a consortium of private sector stakeholders and government. First, it is a transborder concession and two countries are involved: Burkina Faso, which is landlocked, and Côte d’Ivoire, which has a major port at Abidjan. Unlike Argentinean railway concessions, this concession is a joint freight and passenger traffic concession. Second, the two original railway companies were liquidated and two new state-owned “patrimony corporations” were created to hold ownership of the railway infrastructure and equipment. At the beginning of the concession period, SITARAIL leased selected rolling stock from the existing fleet. They were rehabilitated by SITARAIL under debt financing being serviced by SITARAIL. Under the concession agreement, new equipment can either be bought or leased by SITARAIL. SITARAIL purchased four locomotives in 1996. The 15-year concession is a rolling concession, meaning that every 5 years it can be extended by mutual agreement for another 5 years.

SITARAIL’s payments for the concession are threefold: (1) a usage fee, to be negotiated every 3 years, and related to the revenues of the railway; (2) the debt service payment incurred by the government corporations; and (3) a lease fee for the use of motive power and equipment. Payments are kept in an investment and renewal fund to allow the government corporations to refurbish the equipment as necessary.

If locomotives or other equipment is purchased by the patrimony corporations and leased to SITARAIL, then the concession agreement provides that SITARAIL pays the full debt servicing charges and not merely leasing charges.

This approach ensures that commercial motivations are uppermost in investment decisions because the concessionaire is both selecting investment timing and level and paying the debt service. Moreover, because the usage fee is to be renegotiated every 3 years, the concession will evolve over time, depending on traffic levels, the nature of revenue streams, and the required investment levels.

The initial results of the SITARAIL concession are encouraging. Freight traffic has turned upward after many years of decline, and productivity has improved significantly.

10. Conclusions

CURRENT APPROACHES

In the past few years there has been a phenomenal change in the perception in developing countries of the privatisation of state-owned enterprises. This change has resulted from the compulsion to solve the problems of their debt-ridden economies. State-owned enterprises have over the years accumulated huge losses, which have continued to mount year after year. Reforms under state ownership have done little to improve the situation. Today, with only a few exceptions, developing countries have declared themselves in favour of privatisation. Academic opinion too has shifted towards privatisation.

However, privatisation of infrastructure projects in general and railways in particular presents unique problems. Here is where concessioning comes in.

CONCESSIONING

Concessioning provides a flexible, speedy, and effective method for turning around flagging or failing railway systems through privatisation. Prima facie, concessioning appears to be an excellent way of blending the entrepreneurial skills of private management with vast government owned assets. Practical experience with railway concessions has shown that increased traffic, improved service, and efficiency are quickly achieved through concessions.

Flexibility, Speed, and Effectiveness

Its flexibility, speed, and effectiveness makes the process of concessioning a complex task. Flexibility means that a large variety of alternatives are available and need to be considered to arrive at an optimal solution. The multiplicity of government objectives in awarding concessions constitutes the starting point. The geographical, physical, and business divisions into which the concessions will have to be delimited to provide for viable concessions require understanding of the technicalities of railway operations and business opportunities. Bid documents need to be precise yet flexible, and evaluation methods have to be transparent. Credibility of the whole process of competitive bidding, evaluation, and award is essential for the success of concessions. Transparency of all the processes adds significantly to credibility and consequent acceptability of the mechanism by the public as well as by the contracting parties.

Risk Sharing

It is important to note that a concession is essentially a contractual vehicle through which risks are taken by those who are best suited to do so. An entrepreneur concessionaire will be the best suited to take commercial risks involved in satisfying today's fast changing transportation requirements. On the other hand, risks associated with government policy changes (e.g., currency devaluation) are best left to the government. Risk should be appropriately apportioned in contracts for concessions.

Tailored Approach

The need for tailoring concessions to suit specific situations cannot be overemphasised. A concession can be positive or negative; it can be exclusive or limited; it can be global or delimited; it can be for a short or long period. An infinite variety of concessions is possible. Expert tailoring of concessions can clearly produce the best fit for given conditions.

Equitable Contracts

By their nature, all contracts voluntarily entered into have to be perceived as mutually beneficial. However, government contracts tend to include an unduly heavy dose of safety clauses, which generally lead to bureaucratic delays and inefficiencies. Although such clauses may be relevant in, for example, a building contract in which the end product is a clear and limited entity, concessioning is an altogether different affair. The attempt here is to provide a challenge to the entrepreneur to increase traffic, improve service levels, and ensure profitability in a market in which many variables are outside the entrepreneur's control. The contract should be framed in such a manner that the concessionaire is encouraged to take reasonable risks in the hope of rewards, rather than being discouraged from taking risks so that penalties are avoided. In short, positive reinforcement techniques should be preferred and contracts should be equitable and not merely safe.

Long Term

Concessions are long-term contracts, and it is difficult to foresee all possible eventualities. Nevertheless, it is best to spend time and expertise to project and provide for the future eventualities as best as possible. An easy route for doing this, which has sometimes been adopted, is to include in the contract a provision for renegotiation every 3 or 5 years. Prima facie, this is not a desirable clause because of the potential for misuse by both parties. Of course, some provision for quick settlement of disputes or formulating solutions to unforeseen problems is necessary.

Thorough Preparation

As mentioned previously, concessions are complex contracts and thorough preparation pays rich dividends. Detailed documentation must be prepared on all railway assets. The documentation must be adequate for an external party to evaluate the condition of the railway assets that it is bidding to operate and maintain. Large parastatal railways usually have to be divided into several parts to enable concessioning on a competitive basis. This partitioning requires technical and financial capabilities of a high order to ensure that viable entities are created. Preparation of bid documents is another important task, perhaps even the most important, because it represents the end result of other preparatory work.

The thoroughness with which these tasks are undertaken determines to a large extent the potential for success.

Competition

The market for concessioning is not large, and often very few bids or even only a single bid is received in response to an invitation. Competition can be increased by extensive publicity through road shows and by a credible evaluation of the railway and its prospects, preferably prepared by an impartial third party. Experience has shown that there are many positive actions that governments intending to concession railways can take in order to increase competition and thereby ensure a better concession.

Financing

Like any business venture, the concessionaire would also need venture capital, loans, and other means of financing to continue and enlarge the business. A concessionaire is likely to obtain financing only to the extent that the financiers are confident that the concessionaire will be able to make a reasonable return on investment. Such confidence can be strengthened by independent studies by consultants or third party evaluations regarding various aspects of the railway such as traffic potential, technical and managerial capabilities, and other related issues.

FINAL WORD

State-owned railways in most countries are in deep financial trouble. Developing countries are most adversely affected because their economies are caught in a vicious cycle: the state is unable to support railway deficits, leading to the inability of the parastatal railways to maintain assets, which in turn leads to deteriorating services and adverse impacts on their respective economies. Privatisation, through the highly flexible instrument of concessioning, appears to offer a practical way of improving railway services with minimum financial burden on the state. However, a concession is a complex contract involving extensive preparatory work. Each concession is unique and must be tailored to fit specific, well-defined objectives, as well as to address perceived concerns of the government and other stakeholders. Experience has shown that considerable external skills and support are invariably required for requisite preparations, the bidding process, and implementation of the concession agreement. This assistance is necessary to provide additional skills not normally available in the parastatal railway or the government and to provide the additional capacity required to deal with bursts of specialised activities for short periods in different stages of the concessioning process. The costs of such external assistance are generally recovered through the economic benefits generated by concession arrangements. Recent experience demonstrates that railway concessioning successfully reduces the financial burden on the state while significantly improving traffic levels and performance of the railway.

Appendix

SUMMARY INFORMATION ON FREIGHT RAIL CONCESSIONS

Table A-1. Features of Five Freight Rail Concessions in Africa and Latin America

| | Tariffs | Costs | Term | Ownership | Specifications | Selection |
|----------------------------|---|--|---------------------------------------|---|---|---|
| Burkina Faso–Côte d'Ivoire | Concessionaire sets tariffs. | Concessionaire carries operating costs and pays a percentage of revenues annually. | 15 years, on a rolling 5-year horizon | National societies lease equipment to the concessionaire. | Concessionaire has 7 years of exclusivity. Concessionaire agreed to retain 1,815 employees. | Only two bidders emerged. They joined forces. |
| Chile | Concessionaire sets tariffs. | Concessionaire bought shares in FEPASA and pays a track access fee to EFE. | 10 years, possible 10-year extension | EFE retains ownership. | EFE retains right to offer passenger services. Concessionaire must offer Class 1 services. | |
| Argentina | Cost plus rate regulation. | Annual stream of payments from concessionaire. | 30 years, possible 10-year extensions | | Operation, marketing, rehabilitation, and maintenance. Concessionaire retained employees as required. | Weighted evaluation. |
| Mexico | Concessionaire sets tariffs, given effective competition. | | 50 years, possible 50-year extension | Government retains ownership. | All dispatching and train control must originate in Mexico. Passenger train access must be granted. | Technical and financial envelopes. Highest qualified bidder selected. |
| Brazil | Concessionaire sets tariffs. | Up-front canon and annual stream of payments from concessionaire. | 30 years, possible 30-year extension | Government owns and leases equipment to concessionaires. | Certain number of employees must be retained. Accident reduction and service quantity targets. Passenger trains must be granted access. | Open auction. |

Source: World Bank