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RAIL, URBAN TRANSPORT AND ROAD MAINTENANCE: CURRENT TRENDS AND PROSPECTS

This edition of the FAL Bulletin provides an account of recent developments and trends in rail and urban transport and road maintenance in Latin America and the Caribbean.

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RAILWAYS IN 2000: THOSE NOT PRIVATIZED FACE AN UNCERTAIN FUTURE

AN APPARENTLY IMPROBABLE PRIVATIZATION GOES THROUGH. The cases of Guatemala and Peru stand out among recent rail privatizations. *Ferrovías Guatemala*, a subsidiary of the United States Rail Development Corporation, began operations in April 1999, restoring a transport alternative that had been lost to the Guatemalan market some three years earlier. During the intervening period, the state of the rolling stock had deteriorated and the right of way had been invaded. Heavy damage was also sustained by the railway infrastructure and, indeed, the country at large as a result of Hurricane Mitch. In any event, only a bold and well run company would volunteer to operate a railway in a fairly rugged and relatively small country that does not generate large volumes of mineral or agricultural traffic, and which has a mere three-foot gauge. The Rail Development Corporation intends to transport container freight between the Atlantic coast and the capital city during the initial stages, then to provide a freight service from the Pacific coast also; a third phase would re-establish a rail connection with Mexico and, finally, with El Salvador.

CAN OTHER SEEMINGLY DOOMED RAILWAYS BE SAVED? If rail services are successfully re-established in Guatemala, it may be feasible to reinstate them in other countries too, such as Costa Rica, Ecuador and Paraguay, where the future of the rail system has appeared rather uncertain. There is little doubt that in these countries the rail system will either be privatized or closed down. The primitive Paraguayan railway ceased normal services in 1999; its used to run without brakes and were pulled by steam engines whose average age exceeded 80 years. Services might be reinstated soon on the suburban Asunción-Luque stretch.

A DIFFERENT PRIVATIZATION MODEL IN PERU. In November 1999, the three largest railways in Peru (*Central*, *Sur* and *Santa Ana*) were transferred to the private sector, by means of an unusual concession model. The three railways were tendered out as a package to a consortium consisting of United States, British, Peruvian and Japanese interests, which offered to pay the State 33.375% of its income from transport. (During the early years of the concession, this sum may be allocated to investments in the infrastructure.) The consortium solved the problem of finding operators for the service by distributing the three segments among themselves: the United States Rail Development

Corporation manages what is now known as the *Ferrocarril Central Andino*, for example, while the British company Sea Containers is responsible for the tourist service between Cuzco and Machu Picchu (*Ferrocaril de Santa Ana*). In the Peruvian model, the operators lease the rolling stock and pay track rights to their own consortium. The consortium is free to set the value of these rights, on the condition that the same values apply to any operator, including third parties, which might apply to run trains. This mechanism means that, in theory, if a mining company from, say, Cerro de Pasco were unsatisfied with the freight rates charged by *Ferrovías Centro Andino*, this company could lease rolling stock from the consortium and actually compete with *Ferrovías*.

SOME RAILWAYS PRIVATIZED, OTHERS STILL IN STATE HANDS. In 1999 rail privatization was completed in Colombia, and in Argentina *Ferrocarril Belgrano S.A.* was awarded to a consortium led by *Unión Ferroviaria*, a trade union of rail workers, which is to receive a government subsidy for infrastructure works. However, in Chile, neither the rail infrastructure from the Santiago-Valparaíso axis to the south nor the passenger services have yet been successfully tendered, while in Uruguay and Venezuela the entire railways remain State operators. In these cases, the future of operations appears to be more assured than in the other countries where no privatizations have taken place.

RENEGOTIATION WITH LICENSED OPERATING COMPANIES. In Argentina and Chile, the Government seems prepared to renegotiate concessions awarded to companies which have not always complied with their contractual obligations. In Bolivia, the Government has put pressure on *Empresa Ferroviaria Oriental* to bring down freight charges. This company is one of several which have carried more tonnage in recent years than ever before.

THE DREAM OF NEW RAILWAYS. Also in Argentina, a programme has been launched to tender out the construction and operation of a railway in Patagonia, which seems unlikely to materialize. Smaller-scale works were also carried out again on a possible rail connection with Chile, between the Argentinean Province of Neuquén and Chile's Ninth Region. Brazil, however, continues to be the only country in the region where building new railways is a reality rather than a dream.

URBAN TRANSPORT IN 2000: FASTER ECONOMIC GROWTH SHOULD BRING AN INCREASE IN THE NUMBER OF VEHICLES AND HEAVIER CONGESTION

ECONOMIC STAGNATION RELIEVES CONGESTION. During 1999, transport problems in Latin America and the Caribbean continued to be similar to previous years, with modest variations as a result of economic stagnation or deterioration suffered by many of the region's countries, especially in South America. While, clearly, no-one would advocate paralyzing economic growth, it does have the virtue of alleviating the problem of traffic congestion. In a normal year, increases in the volume of cars using road networks aggravate congestion in built-up areas where roads network cannot be significantly expanded, unless the authorities responsible take measures to restrict car usage at the most conflictive times of day and the most congested zones.

In the Chilean capital of Santiago, the automobile fleet grew at rates of close to 10% during most of the decade, which was a reflection of annual economic growth rates in the order of 6% to 7%. In 1999, GDP fell by 1.4% and it is estimated that the fleet grew by a mere 1%. GDP also fell by up to 7% in Argentina, Colombia, Ecuador, Honduras, Uruguay and Venezuela and, although the figures for the car fleet are not yet available, it is certain to have stagnated or grown only minimally. Like in previous years, measures to control car use in the region's cities have been noticeable by their scarcity, timidity or absence. The fact that the congestion problem has not significantly deteriorated in many countries should not be a cause of complacency for their authorities. ECLAC estimates that all the Latin American countries will experience positive GDP growth rates in 2000, which will lead to a resurgence of the usual traffic congestion problem.

MOVES TO ATTRACT PRIVATE-SECTOR INTEREST IN BUILDING INFRASTRUCTURE. Modest economic performance has restricted the funds available for public investment in urban transport, which has delayed major projects like the Santafé de Bogotá underground system and the extension of the Lima metro. Local and national governments continue to seek mechanisms to involve the private sector in increasing the capacity of urban transport systems, but with very limited results. It has been a number of years since any sizeable transport infrastructure project in Latin American cities has been funded by the private sector; not even the extension of the underground network in Buenos Aires, which is operated by a concession-holder, was privately-funded. This situation looks set to change with the construction and administration of the Costanera Norte project in Santiago, which was successfully tendered out in 1999, after a long succession of hitches.

DEREGULATION REACHES A DEAD END IN MAJOR CITIES. Public transport continues to be the most important means of transport in many cities and, for some time now, two basic institutional models have been emerging. One of these is a system strictly planned and regulated by the authorities, of which Curitiba is an extreme example. The other model favours natural market forces, and is based on a liberal dose of deregulation. Examples of this second model are to be seen, for example, in Chilean cities (with the exception of Santiago) and in Peru (though slightly limited in the case of Lima).

In 1999, the deregulation model continued to be found unsuitable in relatively large cities, or those with over half a million inhabitants. In cities such as Concepción (Chile), Santafé de Bogotá (Colombia) and Lima (Peru), measures were taken to increase planning and regulation of the public transport sector. In the case of Lima, an initiative to reorganize the bus service was linked to a World Bank project.

THE ROLE OF THE WORLD BANK. In other cities, the World Bank favours different solutions, such as São Paulo, where the Bank is helping to finance Line 4 of the city's underground. In order to reduce the cost of acquiring equipment, the technical specifications (gauge, electrical system, etc.) will be different to those of the first three lines. Line 4 of the São Paulo underground system will be the only standard-gauge (1,435 mm.) railway in the whole of Brazil at the present time and possibly the first ever in the country.

Of all the large Latin American cities, the transport system probably works best in Buenos Aires, where car parking capacity is restricted in central areas, the privatization of suburban and underground railways has led to major increases in the volume of passengers and the public transport system is considered a model worthy of study by city authorities throughout the world. Even so, the World Bank considers that it could serve public needs even better and proposed that the Argentinean Government allocate part of a loan to an urban transport study, which would be tendered out internationally. The Government agreed to this proposal and the successful consortium started work at the end of 1999.

CONCERN OVER THE COST OF BUS TRANSPORT. Bus fares trended upward in many of the region's cities throughout the 1990s. In 1999, there were signs that the authorities were willing to consider public transport options that involve modest sacrifices of comfort or modernity, providing that these entail more accessible fares for lower-income sectors of the population. In other parts of the world where public transport subsidies are an alternative and economically acceptable policy, fare cuts would be feasible without making such sacrifices. In Latin America, however, there is little likelihood of relaxing the rule of operating bus systems without explicit governmental subsidies (which are conceded to metro and suburban train companies). Both efficiency and equity would justify subsidizing bus travel by means of resources levied from automobile drivers, since the congestion caused by private cars increases operational costs of public transport and travel times of bus passengers.

ROAD MAINTENANCE IN 2000: GOOD PERSPECTIVES FOR IMPROVEMENT

Road maintenance is a key activity for improving the competitiveness of countries and regions. Keeping roads in good condition avoids increases in vehicle operation costs, which make transport unnecessarily more expensive and hamper the access of goods and services to markets. Good maintenance helps prevent accidents caused by roads in poor condition and avoids the need to rehabilitate roads and streets. There was a growing awareness of the importance of road maintenance in the region in 1999, which was reflected in various measures to bring about its improvement. Perspectives for 2000 are also promising.

Road maintenance funds. One of the most serious problems associated with road maintenance is its financing. This has been chronically insufficient, since it usually depends on public funds, which are constrained by multiple demands and varying priorities. For this reason, **road maintenance funds** are now considered a realistic way to generate adequate and timely funding for maintenance in the long term.

This approach has been borne out by the experience of **Guatemala**, where road maintenance work has increased steadily thanks to a fund that has been in operation since early 1997. The previously inadequate road system has benefited from a rapid and sustained expansion of maintenance activity, so that during 1999 7000 kilometres of interurban roads (over half the country's total road network, including all main routes were being adequately maintained). During 2000, coverage is expected to extend to over 9000 kilometres. Growing maintenance work have brought clear benefits for users, since traffic circulates much more easily and the potholes, which were practically an integral part of the road system before, have all but disappeared.

Costa Rica and **Honduras** have road maintenance funds in the early stages of operation. 1999 was a year of preparation, setting priorities and organization. At the same time, some operations were begun, with contracts let to alleviate the most pressing needs. Systematic maintenance activity is expected to begin in 2000, with steadily increasing coverage.

Noteworthy features of these funds are direct and indirect **user participation** in resource **administration councils** and the **high priority placed on maintenance**: as a result, over 75% of the available budget is allocated to maintenance (90% in the case of Honduras).

A less positive feature of these three examples is that the income from the road maintenance fund is considered as an earmarked tax in legal terms, rather than **payment of a rate for services rendered**. Levying the resources as if they were regular taxes can cause delays in the flow, which have already occurred on some occasions. Also, since an earmarked tax is, at the end of the day, fiscal income, it runs the risk of being allocated at any time to other ends considered to be of higher priority. For example, during Guatemala's recent election campaign, it was proposed to allocate part of the fund's income to improving teachers' salaries.

In **Nicaragua**, the National Assembly began to debate a draft law to create a maintenance fund in 1999. **El Salvador** is expected to follow suit in 2000. Several other countries of the region have analysed the issue, but no definitive decisions have been taken.