RDC RAILROAD DEVELOPMENT CORPORATION

Rail Privatization in Latin America—

15 YEARS OF UNPRECEDENTED CHANGE

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RDC is uniquely suited to comment on this subject, having been involved from the beginning in Latin American rail privatization as result of its participation in two Argentine railways; both are now part of ALL. It is with no small sense of satisfaction that the Argentine model has found itself replicated in countries as far away as Africa.

RDC's participation in a total of four Latin rail privatizations reflects the diversity of opportunities found around the continent ranging from the straightforward success of the privatization of FCCA in Peru, to changes in ownership and economics in Argentina, to the continuing saga of Ferrovías Guatemala which to this day is arguably the single most challenging privatization in the region.

Perhaps the greatest challenge in Latin America has been matching the results of privatizations with expectations, from the perspective of all stakeholders: in descending order of importance, customers, shareholders and host governments. Brazil is easily the most consistently successful of Latin countries in that privatization has in most cases achieved at least partially the financial and traffic projections originally contemplated. This is heavily influenced by Brazil's combination of size, traffic density, and physical condition upon privatization. In contrast, Argentina is also a large country but has suffered from continuing macroeconomic crises, a grossly overbuilt network, and poor physical condition. In the meantime, railways in Nicaragua, El Salvador and Honduras have virtually disappeared, leaving only Panama and Guatemala as Central American countries with railways.

The most important factor in the success of rail privatizations–or even a railway's survival–is of course economic. Once again, the financial environment differs radically from country to country and it is not surprising the most favorable environment is Brazil's, where a strong traffic base and relatively good physical condition have presented the best overall financial environment in Latin America. In addition to these fundamentals, the Brazilian State has actively supported railways through BNDES. In contrast, elsewhere around the region railways have been left to patch together financing, a task made unusually difficult by the nature of concessions—as the concessionaire does not own the assets, there is not the financial security that normal lenders would look to, for example, in North America (where even railways as substantial as Union Pacific are valued at below the liquidation of their track material and real estate). It is this perverse logic that relegates railways in countries where they are the most desperately needed to secondary status.

While it is interesting to compare the railways of Latin America with that in North America and even Europe, it is a difficult task to extend those economics to a continent whose railways were historically never designed to connect and where state ownership has prevented their

development in concert with national economies. For this reason, Latin America stands on its own and can take some comfort that it is at least a beacon of hope to Africa. In the case of the latter, as in Latin America, many railways are isolated; serve a narrow range of customers; and have suffered under decades of state ownership.

Other presenters ranging from banks to the larger of the Latin American railways will no doubt talk about the financial results of relatively large railways, which in many cases have either major customers as owners or operate in countries where they have been able to secure financing in a somewhat conventional manner. My final comments are therefore directed to the smaller and more marginal railway companies, in the hope that our own successes and failures will serve as important examples.

In particular, the Nacala Corridor in southern Africa is a good example of how a small and isolated network can be strengthened by integration not only across borders but also across transportation modes. The integration of the Nacala Port and Railway was finally able to attract financing after an 8-year search because of its compelling importance to its major market, Malawi, and its potential importance to its less developed secondary market, northern Mozambique.

In contrast, Guatemala serves as a poster child for a railway that, for all its good intentions, continues to struggle largely due to external factors artificially imposed in contradiction of the original business plan. This has ranged from diversion of revenue from an infrastructure fund paid into by the railway itself to its being declared a Category A Environmental Problem by various multilaterals due to invasion of the right-of-way by squatters. Ironically and perversely, squatter infrastructure such as electricity and water has been funded by the same multilaterals and is partially responsible for the closure of the railway in El Salvador…which a generation ago was part of the same system as Guatemala…a system which also included ports! For this reason, Central America might look to Africa, which has in turn looked to South America, for models.

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