OWNERSHIP, ORGANIZATION AND COMPETITION POLICY: AN INTERNATIONAL REVIEW

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INTRODUCTION

This series of conferences originated in Thredbo in 1989 as a forum for discussion of liberalization of the traditional highly regulated and state dominated public road passenger transport sectors of the industrialized countries. It has subsequently expanded to encompass other transport modes. The question I would like to confront concerns the international transferability of the lessons of transport liberalization to developing countries and transitional economies which differ drastically in terms of income, legal and cultural tradition, and initial transport sector conditions from those of the industrialized countries. As a preface to that discussion let me start with some stylized facts about those differences.

In the *industrialized countries* prior to reform public road passenger transport was usually provided by protected monopolist operators, often but not always publicly owned. Fares were typically set by local government which provided subsidy, often on a simple deficit finance basis. Maintaining public transport service quality in the face of declining patronage associated with increased income and car ownership imposed increasing fiscal burden.

In the *transitional economies* of eastern European and former Soviet Union the starting point is similar. The command economies typically relied on highly subsidized public sector supply of land passenger transport, including, particularly in Russia, dense and technically efficient metro and urban rail systems. Economic liberalization has in many countries been accompanied by decentralization of responsibility for traditional state services to regional or municipal governments without adequate intergovernmental transfers or local taxing powers. As a consequence many of the European transitional economies have experienced a rapid deterioration of the physical capability of the traditional public transport agencies.

In contrast the *Asian command economies* - notably China and Vietnam - (and some mixed economies such as Bangladesh) have always depended heavily on non-motorized transport and face the development of motorisation in a context of very embryonic public transport systems. Associated with that has typically been a very limited capacity to manage or restrain traffic. The Asian problem is thus to develop public transport in the face of burgeoning motorisation (often on two wheels rather than four).

In the *developing countries* over 75% of public passenger transport is road transport supplied without subsidy by the private sector, formal or informal.[1] Where the public sector has traditionally had a large role, as for example in Francophone West Africa, it has almost totally collapsed. Even in Cote d'Ivoire, the parastatal SOTRA is scheduled to be split up and privatized. The questions which this raises do not so much concern the possibility of re-establishing the public sector suppliers - it is usually too late for that - as the degree to which private sector might work even better in a more sympathetic regulatory framework.

THE NATURE OF THE FAILURE OF TRADITIONAL PUBLIC SECTOR SUPPLY

In most industrialized countries public transport reform has been motivated by government decisions to reduce the fiscal burden of maintaining subsidy to existing - and usually quite high quality - public sector passenger transport. Outside the industrialised countries the search for new approaches is more typically associated with progressive operational failure of conventional public transport supply whether from the public or private sector.

Over Specified Regulation

At any given level of supply efficiency the financial outcome is determined by the quantity of service provided (frequency), its quality (vehicle type, crowding, etc.) and its price. Simultaneous regulation of quantity, quality and price determines the financial outcome. The combination of high aspirations in all these dimensions in the absence of any mechanism to increase supply efficiency or to reconcile them financially is the most common reason for the failure of conventional public transport in developing countries.

The most common process by which this inconsistency affects service is that cash starved enterprises so defer maintenance that vehicles cease to be roadworthy. In most West African countries traditional services have already been replaced by unregulated informal sector services. Reduced service increases waiting times and on-vehicle crowding, making it difficult to collect fares from those who do travel. Government control of fares, quantity and quality of service, exercised ostensibly to assist the poor, can have damaging effects whatever the industry structure or ownership, as Jamaican experience shows (Box 1).

Box 1. Public Transport Collapse in Jamaica

Public transport service was provided after the second world war under a monopoly franchise, held after 1953 by Jamaica Omnibus Service Ltd. JOS was taken over by the government in 1974 because it could not maintain service at the controlled fare. To escape mounting subsidy cost, the buses were returned to private ownership in 1983 (90 percent to single bus owners). Franchises were let by JOS to ten "package holders" who further sub-contracted to owner-operators.

Dissatisfaction with the quality of service led the government to introduce a new system in December, 1994. The city of Kingston was divided into five areas for exclusive operation of a chosen franchisee for a period of ten years in the first instance. Political unwillingness to increase prices led to the omission of a fare table from the invitation to tender, though provision was made for payment of a compensating subsidy in the event that a commercial fare table was not subsequently introduced. Though the initial fares were adjusted for inflation in February 1996, the basic inadequacy of the fare level not addressed without any continuing subsidy being paid.

In these circumstances franchisees were unable to provided the required capacity. In mid 1995 the government established a Metropolitan Management Transport Holding Company to manage the government financed purchase of a number of vehicles and construction of terminal and depot facilities, to be leased to the franchisees. By the end of 1996 no sustainable basis had been found for the operations and three of the franchises were in severe financial difficulties.

Source: K.M.Gwilliam.[2]

Outcomes can also be affected in other ways by fare regulation. In Seoul, Korea, effective control of quality aligned with efficient operational management has simply caused operators to progressively shift service from the low fare regulated "standing bus" to the higher fare "seat bus". Capacity has been maintained simply by allowing suppliers to vary the mix of low fare and high fare services supplied. In Dhaka, the parastatal Bangladesh Road Transport Corporation, under instructions from government to improve its financial outcome, is renovating buses withdrawn from fare controlled urban service and leasing them to private operators to work in the uncontrolled inter-urban market. Urban passengers are increasingly forced to use smaller shared taxis at higher fares.

Unfunded Social Obligations

In the transitional economies a common form of intervention is the imposition on the operators of obligations to offer free or reduced fares to a wide range of categories. Not only was this of dubious redistributional validity but it also made it much more difficult to enforce payment even for those who should be paying. With the disappearance of the fiscal basis for such subsidy in many transitional economies, the continuing legal commitment to widespread fare reductions has simply contributed to a financial crisis resulting in deterioration of assets and service. For example, in the states of the former Soviet Union for the first four years after political liberalization up to 70% of riders traveled free, cost recovery was as low as 10% and the number of buses on the road declined at a rate of between 5 and 10% per annum in some cases. Reform was particularly difficult where municipally financed concessions were provided for by national law. Other unfunded public service obligations have less obvious effects. The burden of maintaining unremunerative services drives some state operators to service to their core markets, leaving them inadequately supplied, and hence potentially profitable for operation of the informal sector. Even relatively efficient operators find such disadvantages difficult to survive (Box 2).

Box 2. Unfunded Service Obligations; The Predicament of Barbados Transport Board

Until 1980 bus transport was provided exclusively by a state owned enterprise, the Barbados Transport Board (TRB). The government required TRB to provide specified levels of service throughout the island at a fixed flat fare. In 1980 the government granted permits to private operators for a number of 33 seat minibuses and 10 seat maxi taxis to operate primarily on shorter and more heavily patronized routes into and within the capital Bridgetown at the same flat fare. Competition was very damaging to TRB By 1992 its fleet had been reduced to 180 buses of which only 80% were in operation. But it still employed 1200 people. As buses went out of operation due to lack of finance for replacement the staff to bus ratio peaked at over 10.

In a bold operational "streamlining" in 1993 staff of the Transport Board per vehicle was reduced from over 10 to a little under 5, reducing annual revenue support to the Transport Board from over $B20 million per annum to around $B2 million. Despite its improved operational efficiency, the finances of TRB are deteriorating again. The crux of the problem is that so long as there is a flat fare system the advantage of the smaller vehicles in frequency and flexibility will allow them to take the shorter distance traffic, even if the larger vehicle could do the job at a lower unit cost and lower fare. Increasing the flat fare to assist TRB on long routes further accentuates their disadvantage on shorter routes.

Source: K.M.Gwilliam op.cit.

Where the informal sector is either legally prevented from operating large vehicles (as in South Africa), or cannot finance them, this also distorts the mix of vehicles.[3]

Public Sector Supply

The problem of inappropriate intervention has frequently been accentuated by state ownership. As the financial condition of the parastatal services has declined it has become increasingly difficult to afford to maintain vehicles which have dropped out of service (for example, at the time of concessioning only half of the locomotives of the Brazilian railways were operational). As services have declined, so has patronage and revenue, which has fueled further decline. The problems of parastatal operators has been compounded by the protected status of public sector employment which could not be adjusted. In many countries the number of staff per vehicle of public sector bus operators - which should not exceed about five in any well managed company - has exceeded 20. In Caracas, Venezuela the number of staff per bus reached 60 before public sector bus operations were discontinued.

General Fiscal Failure

In many transitional economies the first impetus to liberalization comes when national governments transfer responsibility to regional or municipal governments. The motive for the transfer is usually to escape a drain on the national budget, and *ipso facto* the transfer is often unaccompanied by any inter-governmental fiscal transfer adequate to maintain traditional levels of service. The same pressure is also likely to arise in South Africa with the devolution of responsibility from central to provincial government. The ensuing local fiscal crisis typically sharpens the willingness of the local authorities to seek cost cutting strategies.

COMPETITION IN SERVICE SUPPLY

Developed and developing countries have a common desire to seek improvement in the performance of public transport through the introduction of stronger commercial incentives. But there is a spectrum of degrees of commercialization and private participation in supply associated with different degrees of transfer of responsibility and risk from the political level to operational management in either private or public sector (Table 1).

Table 1: Division of Function Between Public Sector (P) and Private Sector or Concessionaires (C) Under Different Supply Arrangements

	Public monopoly	Performance agreement	Management contract	Gross cost franchise	Net cost franchise	Full concession	Free entry
Ownership of infrastructure	P	P	P	P	P	P/C	C
Ownership of rolling stock	P	P	P	P/C	P/C	C	C
Route service definition	P	P	P	P	P	P/C	C
Fares control	P	P	P	P	P	P/C	C
Revenue collection	P	P	C	P	C	C	C
Labor contract control	P	P	C/P	C	C	C	C
Operational management	P	C	C	C	C	C	C

The critical question is how to select a regime with characteristics that are appropriate to the local situation. In the metropolitan areas of developed countries there is an emerging preference for competition for the market rather than competition in the market. Where multi-modal integration and complicated concessionary fare arrangements are desired this is often seen to favor gross cost concessioning, involving secure means of fare collection and transfer to the concessioning authority. The achievement of the same objectives with net cost concessions requires sophisticated inter-operator revenue transfer mechanisms.

Both variants of franchising depend on the existence of a sophisticated, efficient and uncorrupt public administration. But many countries have no similar tradition of clean administrative competence or even of private enterprise in the supply of public services under a rule of law. Immediate privatization of parastatals in these circumstances may simply be an invitation to mafia control, as has happened in the taxi business in some Russian cities. The process of liberalization clearly needs careful adaptation to local conditions.

Commercializing Public Enterprises

The mildest, and often the first step towards liberalization is a move from deficit financing of the publicly owned enterprise to a more arms length relationship formalized in a performance agreement. Such agreements are being designed in many Russian and former FSU cities (for example Ashkabhad in Turkmenistan), as well as in cities accustomed to rather milder forms of etatism, such as Tunis. The general consensus on such agreements is that they involve only very weak incentives and penalties, and do not work very well.[4] But they may offer a necessary learning period, both for the enterprise and for the government, in the process of liberalization. The lesson would appear to be that performance agreements should only be introduced as part of a broader strategy involving some genuine introduction of competitive pressures and incentives.

Recognizing Social and Environmental Imperatives

It has been typical of the measures of liberalization in rich countries for reliance on cross-subsidy of social services (however defined) to be replaced by a much more explicit subsidy mechanism (often in the form of competitively tendered franchising of subsidized services). Even where some cross-subsidy has been retained competitive tendering of balanced packages with defined service and price conditions has been used to reconcile competition with the maintenance of some unremunerative services. In many of the poorer countries which are seeking to liberalize the essence of the problem is that there is neither any obvious market basis for internal cross-subsidy nor a fiscal basis for direct subsidy.

A common way of trying to reconcile the desire to have a cheap basic transport service for the poor with the need to maintain an adequate total supply is the introduction of multi-tier systems. For example, both in the bus and taxi markets in Korea there basic services at controlled fares are supplemented (and are progressively being replaced by) superior services (the "seat-bus" and the "de-luxe taxi") allowed to charge higher prices. Air-conditioned or express services are permitted at premium prices in regimes as different as those of Jamaica (where basic services are area franchises), Buenos Aires, Argentina (where the basic services are overlapping route monopoly franchises) and even Shanghai, China-(where the basic form of transport is the bicycle).

The long term effects of relying on "peripheral free entry" to maintain total supply are not always favorable. First, as is happening in Korea, the new entry tends to replace, rather than supplement, the basic service so that at best waiting times increase for those dependent on the basic service. Second, the controlled fares often support such a sparse level of service that even the very poor are forced to use the peripheral services at many times the basic service cost, as in Dhaka. Third, the regulatory segmentation tends to distort the choice of technology. The fact that the public sector operators have often had a statutory monopoly in the provision of services by large vehicles has meant that their decline has artificially reduced average vehicle size. The 16 seater minibus in South Africa and the similar sized jeepney in the Philippines already serve 50% of the commuting market despite the protected status given to the formal large bus companies.

As with social objectives there is a commonly felt concern that private sector operators will be less concerned with environmental issues than the public sector. In respect of the more direct effects of vehicle emission standards the empirical evidence hardly supports the concern. Public transport vehicles have been among the most polluting in many of the transitional economies, and there is an inherent unwillingness of government to take action against itself in such circumstances. In respect of less direct effects there is a widespread concern that liberalization will lead to excessive supply, reduction of average vehicle size and adoption of environmentally damaging technologies. All are valid fears. But the Chilean experience in Santiago has shown that competitive franchising can be designed both to control the total amount of traffic in sensitive areas and to give high private incentives to operate in environmentally benign ways. Embodying environmental standards within a contractual process gives a strong incentives to ensure compliance.

The Role of the Informal Sector

A common feature of developing countries is the very large role played by the informal, non-corporate, sector in the supply of public transport services. This comprises a wide range of technologies, from the rickshaw pullers of Bangladesh, through the peculiar indigenous jeepney of the Philippines, to the air-conditioned special buses in Argentina. It also comprises a wide range of regulatory responses from route licensing for the Manila jeepneys, through total vehicle stock constraints as in Bangladesh, to effective free entry (which often occurs despite formal regulatory requirements). For example, it is estimated that between 30% and 40% of the minibus taxis in South Africa currently operate illegally.

The perennial objection to the informal sector - and to free entry into the transport market more generally - is the lack of operating discipline that fragmentation engenders. Not only does this take the form of unsafe behavior such as racing and overtaking on the road (which should in principle be controllable by the normal processes of law) but also in the development of patently uneconomic operating practices. A common phenomenon in many countries is the development of the practice of controlling departures from terminals to secure full loads on departure. This may be enforced by associations (minibus/taxis in South Africa) or by terminal operators (Bangladesh). This has the effect reducing the proportion of vehicle time spent in revenue earning business, making it impossible to board buses outside terminals and hence adding walking distance to trip lengths, and undermining schedule reliability. The problem is that, once established, this practice represents a kind of prisoners dilemma, with no individual having the incentive to break the practice even though it would be in the common interest if everyone were to do so.

Some constraints on such chaos are often self imposed by "operators associations" which flourish particularly in Latin America[5] and West and South Africa.[6] Such associations typically establish property rights - often over terminal positions or slots - by force of arms if necessary. Once entry is restricted by some means it becomes in the interests of members of the association to establish some stability and discipline in operations in order to protect the market value of the product and to distribute costs and revenues "equitably" among members. The devices to achieve this (for example, holding vehicles in terminals until they are fully loaded) do not necessarily maximize consumer or total social welfare. However, in the context of a more regulated situation such as that in Buenos Aires, where overlapping route monopoly franchises are granted to individual associations, operators associations may be effective in reconciling fragmented ownership with disciplined service management.

Some very special problems are arising in a number of East Asian countries such as China and Vietnam and South Asian countries such as Bangladesh where the predominant form of mechanized personal transport has been the bicycle. In those countries there is very little motorized public transport, and what there is often more expensive and little quicker than the bicycle because of its relative inflexibility and inability to exercise its potential speed advantage due to (predominantly bicycle caused) congestion. The most obvious trade-up as income increases is not into the bus but onto a motorcycle - and eventually into a car. Even completely free entry into the public transport industry seems unlikely to break that trend. Given the typical fiscal inability of municipal governments in developing countries to subsidize public transport and the continued resistance to internalization of externalities through road pricing it remains critically important to the establishment of the proper role for public transport that there are some strongly pro-active surrogate policies of private vehicle restraint and public transport priority.

PRIVATIZATION OF PUBLIC TRANSPORT INFRASTRUCTURE

Railway Concessioning

Concessioning of rail operations to the private sector, *per se*, is not novel, even in developing countries. For example, the only part of the Jamaican rail system to survive is that part which was concessioned to the bauxite industry. The whole of the rail freight sector in Argentina and Brazil is now either operated under concession or in the process of concessioning, with impressive results. In West Africa, Cote d'Ivoire and Burkina Faso have issued a joint concession for the operation of their national railways systems.[7]

What is new in the rail sector is the recognition that negative concessions, in which the government pays the concessionaire for the provision of service, may make as much sense as positive concessions. Again the initial experience in Argentina has been that, with fares at levels specified by government, concessioning can improve service and patronage while at the same time reducing the burden on the fisc. That experience has even led the ANC government in South Africa to the point of adopting a policy of regionalization and eventually concessioning of urban rail services to the private sector.

Private sector involvement in the financing of new passenger rail facilities under BOT or other similar arrangements is less common. Concessions have been awarded in Bangkok, but implementation of the first line is still in progress. A concession for the third LRT line in Manila, which is to be mainly an elevated construction in the central reservation of the largest and busiest thoroughfare in the city, has also been granted but not yet implemented. In both of those cases the concerns about financing appear to have dominated concerns about the integration of the new facilities within the overall urban transport system. Moreover, in both cases the absence of an effective metropolitan transport planning agency has inhibited the efficiency with which new private sector initiatives can be incorporated into the total urban transport network.

Road Passenger Transport Infrastructure

Infrastructure is also a problem for public road passenger transport. A major limitation to the effectiveness of bus transport in most countries lies in the difficulty of giving it sufficient separation from general traffic congestion to allow its full potential to be exploited. In a number of Latin American countries, but particularly in Brazil, completely separated busways have shown the capability of carrying peak single direction flows of 20,000 passengers per hour at effectively free flow speeds.

In the best known (though not the largest) system, in Curitiba, the busway forms the trunk haul section of a well integrated trunk and feeder system. Both this system and the even more highly utilized busways in Bela Horizonte and Sao Paulo involve private sector buses using publicly provided infrastructure.

Moves are now being made to secure private financing of busways in Brazil through private concessioning of construction and operation.[8] (Box 3).

Box 3 Private Financing of Busway Infrastructure in Brazil

The State of Sao Paulo has invited bids to construct and operate busways in six corridors with a total length of 127 kilometers and six transfer terminals, and there are plans to concession a further 9 corridors with a total length of 136 kms. and 21 more terminals. The Municipality of Sao Paulo has already separately concluded the selection process and has identified operators for 9 corridors with a total length of 226 kms. and 39 transfer stations.

The State and Municipality approaches have different structures. The State is offering concessions to bus operators involving exclusive rights to operate services on the infrastructure for a 20 year period. The Municipality, in contrast, is separating infrastructure concessions from operating franchises, with the remuneration to the busway concessionaires taking the form of a "shadow toll" related to the number of vehicles accommodated. However, problems in raising loan capital are still holding up progress with the State schemes. Nevertheless, these ambitious plans do represent a major step forward in private sector involvement in public transport infrastructure in megacities.

Source: Rebelo, J.M. and P.P.Benvenuto (1995)

A different approach to private financing of urban transport infrastructure was attempted in Bogota, Colombia, where the government identified a corridor for which mass transit service was required but indicated its willingness to entertain proposals embodying a range of different technologies. The selection of a busway proposal, similar to that of Curitiba, was the beginning of a story which has not yet ended. But one lesson is already clear from that experience. The broader and less precisely specified the product being procured, the greater the scope for post award renegotiation or litigation. That is particularly troublesome in countries like Brazil where legal challenge of public contract awards is rife. Where private financing is contingent on the prior completion of works by the public sector, as in the proposed BOT for metro Line 3 in Manila, the scope for conflict is also very high.

The Conditions for Private Sector Participation in Public Transport Infrastructure

Experience suggests some important conditions for success. in concessioning public transport infrastructure to the private sector.[9] First, there must be a favorable economic environment. The existence of experience of concessioning in other sectors, particularly in the context of a national law on concessions, is invaluable. A stable macroeconomic situation and undisputed rights to remit profit is particularly important if it is intended to attract foreign participation in the funding. The existence of a mature local capital market is also important.

Second, there must be a very clear commitment of government to the participation of the private sector. It must be willing to commit itself contractually to a long term series of payments. One of the problems that has slowed down the concessioning of the suburban railways and metro in Rio de Janeiro, Brazil, is the uncertain legality of such long term public sector commitments under the existing law. Furthermore, for a concession contract to be a meaningful commitment (rather than an invitation to renegotiate) government must also be willing to accept constraints on its freedom to intervene in fares and service strategy outside the terms of the concession contract. The Argentine passenger rail concessions fix the rates in real terms and contain detailed provisions covering conditions under which these can be adjusted. Even if ownership of the assets remains public (as in Cote d'Ivoire/ Burkina Faso rail concession), or investment is financed by the government (as in Argentina), the implementation of works and maintenance of assets must be the clear responsibility of the concessionaire.

At the heart of the general reluctance of the private sector to invest in public transport infrastructure is often a lack of faith in governments to honor the terms of concession agreements over a long term and to abjure interventions which will damage the value of the investment. There are a number of ways in which the multilateral lending institutions can help to overcome this through guarantees to private sector lenders backed by counter-guarantees from the government to the institution. This can cover such things as the good faith of government, or lengthening the term of private financing. One of the major challenges to the multilaterals is to develop such guarantee instruments which can be mobilized sufficiently quickly and flexibly to match private financiers requirements.

Probably the most critical impediment to concessioning is the problem of labor redundancy. In most publicly owned railways systems the combination of public sector employment conditions and secular decline in some area of demand has resulted in severe overstaffing. The concessioning of railways at least halved the workforce in Argentine, Brazil and Chile, without reducing output. .Especially where countries impose obligations on companies in respect of forced severance potential concessionaires will typically require the government in one way or another to accept financial responsibility for all redundancies. This needs careful design to combine the government responsibility for "clearing the decks" with the concessionaires ability to decide what staff to keep and what to sever. Although the returns to the fisc may be large and rapid, where the initial severance payments are large the immediate burden on the fisc may be off set by covering them through borrowing (for example, World Bank loans have facilitated railway restructuring in this way in both Argentina and Brazil).

LESSONS FOR DEVELOPING AND TRANSITIONAL ECONOMIES

It has been argued that the evidence of the deadening and distorting hand of direct government involvement in public transport supply is just as strong, if not stronger, in developing as in developed countries. The fundamental requirement to separate policy from operations, and to find ways of exploiting private sector skill and initiative in service supply applies equally to both. But there are important differences in *objective* (the extent to which transport fare regulation is seen an instrument in poverty reduction policy); in *fiscal capability* (the ability of local jurisdictions to mobilize the resource for subsidy); in *administrative competence* (the ability to manage a complex regulatory or public customer role); and in *entrepreneurial competence* (the scale of indigenous entrepreneurial skill in the industry as well as the initial fragmentation of ownership). Despite these differences we can derive some general lessons for transport liberalization in the developing world.

The first important lesson is that *you only get what you pay for.* While increasing competition can reduce operating costs it does not ultimately break the link between the level and quality of service that can be viably provided with the amount of funds available either through the fare box or a subsidy mechanism. The system must permit financially viable operation.

The second lesson, derived from the first, is that *fares control is compatible with competitive private sector supply only if an adequate revenue flow is assured.* A compromise between a short term political imperative of fares control and the long term inescapability of the need for an adequate revenue source is the conscious and managed creation of a multi-tier system with "premium" services allowed a commercial freedom which can be progressively expanded. Attention to the potential for such market segmentation is particularly important in developing countries where high levels of auto dependency have not yet occurred.

The third lesson is that *the market form adopted must reflect both the objectives and the fiscal capability of the country.* As the Jamaican experience shows, even the adoption of competitively tendered franchising is unlikely to yield any significant benefits if the franchise design is inconsistent or faulty. Hence it is important to ensure that any system is not over-regulated. Of the four elements - service quantity, service quality, fares and subsidy - only three can be subject to binding constraints.

The fourth lesson is *only to introduce a regime that can be managed.* Where corruption is rife in public service it may be inviting trouble to create a regime which depends on the fair award of contracts. Even if contracts can be fairly awarded, there is little point in introducing gross cost contract schemes if operation is fragmented, and the tradition is for the operator to pocket part of the revenues. In such circumstances it may be better to concentrate on devising regimes which create incentives to self regulation through association within the industry, combined with external monitoring and enforcement of on the road behavior. The combination of small scale with operational discipline in Buenos Aires and Santiago are both examples of the benefits of carefully focusing public sector intervention.

The fifth lesson is *that there must be strong public sector commitment for liberalization to work best.* There is a residual regulatory requirement in all liberalized regimes. At the very least this consists of the enforcement of a general rule of law to forestall the arbitrary creation of protected property rights in transport by private force, and to maintain discipline in on-the-road behavior. The difficulties, in some countries, of ensuring even this minimal regulation must not be underestimated.

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