

Organization of Urban Public Transport in France: Lessons for Developing Countries

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After decades of vacillating between the extremes of government and private ownership, culminating in a steady decline in services and patronage during 1960s, urban public transport in France underwent a series of institutional reforms in the early 1970s, leading to remarkable improvements in the quality and quantity of services offered, as well as in usage. The system which has evolved over the past 15 years is a private/public hybrid: most operators are private, selected through competitive bidding every five years; all other aspects—the ownership of equipment and facilities, the establishment of routes, tariffs and service specifications, the power to impose on local enterprises a dedicated transport tax, and to make investment decisions—belong to intercommunal, areawide public transport authorities, made up of elected officials from constituent communes. Five elements of the French approach are especially relevant to urban public transport in developing countries: (i) system coherence, whereby all aspects of the system are related to each other and covered in an explicit policy; (ii) the contracting approach, fostering a *quid pro quo* relationship among all private and public actors involved; (iii) the preservation of competition, to maintain efficiency in providing services; (iv) decentralization, which helps balance out local demands and resources; and (v) the stability of the non-tariff revenues, which permit orderly development over time.

This paper will review the French approach to the organization of the urban public transport sector (hereafter called transit), so as to emphasize those concepts and practices which may prove useful in working on transit problems in developing countries, particularly in some African countries whose administrative structures resemble those of France. Unless otherwise specified, the paper will refer to the French provincial cities only, the case of Paris being quite special and deserving separate treatment.

The paper concludes that of the five key elements contributing to the revival of transit in France over the last 15 years (the coherence of the institutional system, the contracting approach, the role of private enterprise, political decentralization and the selection of the major source of finance), the first three are recommended for use in developing countries, whereas the last two have problematic aspects and should be considered on a case-by-case basis.

BACKGROUND

The rapid growth in car ownership and use in the 1960s led to a crisis of public transport in French cities: operators, mostly

private bus companies working on a franchise basis, reacted to the loss of patronage by reducing the supply and quality of services, and by not renewing fleets and facilities—the usual vicious circle, leading to even lower transit usage and eventual bankruptcy (1). In the early 1970s, the automobile was king in France: ambitious plans drawn up by the powerful caste of civil engineers, united in spirit with the even more powerful auto industry, called for no fewer than 15 new radial highways coming into Paris, based on projected “needs”; one bank of the River Seine was paved into an express highway, the other having been saved from a similar fate by the country’s top politicians, once alerted to potential loss of a national heritage. Transit seemed destined to survive in a minimal, state-activated form, a bone tossed to the unfortunate.

Yet little more than a decade later, French cities boast transit systems ranking among the world’s very best. While there are several showcase rail-based systems (new metros in Lyon, Lille, and Marseille; new light-rail lines in Nantes and Grenoble), the street bus is the workhorse of some 100 provincial transit networks in France (including cities of more than 30,000 people). Though operating on city streets, most often without exclusive bus lanes or priority at intersections, these bus networks provide extensive, frequent, punctual services. Their vehicles are well-maintained and their fleets regularly renewed; much use is made of information-processing tools to schedule, monitor and control operations, and to provide passenger information; interline and intermodal integration is advanced, as is integration of tariffs within and often beyond urban areas. After a steady decline in both services and clientele throughout 1960s and early 1970s, transit rebounded, posting a 50 percent increase in trips served in the 1975-84 period—a response to a 60 percent increase in vehicle-kms of service offered (2). Highway investment slowed, with funds shifting to street maintenance and network management; city centers blossomed around the twin arrangements of transit terminals and walk-only areas and corridors.

That France succeeded in carrying out a transit renaissance on such a scale and in such a short time reflects a consensus, across the political spectrum, on the importance of maintaining an attractive alternative to private car, as well as the tremendous technical and financial capacity that the country possesses. Yet, however impressive the fully automatic operation of the metro in Lille, or the functional design of the bus/tramway interchange points in Nantes, or the coordinated control of transit and traffic in Nancy, the most striking aspect of French transit lies not in its technical achievements, but in the institutional arrangements. It is this aspect which holds interest for transit in developing countries. While most of these countries do not command either financial resources or

trained personnel to construct and operate sophisticated transit systems (independently of whether or not these systems have a financial/economic justification), they all need paradigms for organizing the transit sector.

Several such paradigms exist: one frequently tried approach involves municipal bus companies charging low, "social" fares and depending to a large degree on the decisions and financial support of the central government; another approach would treat transit primarily as a commercial activity, insisting on full cost recovery from the farebox and placing faith in small-size, privately owned enterprises competing in both price and service dimensions. The French system is a hybrid: it is animated and guided from the central government, but the decision-making and the finance for all but the largest systems are local; vehicles, equipment and facilities are in public ownership, but the operators are mainly private companies; the general framework of the sector is defined through laws and decrees issued in Paris, but the specific relationships among various public and private sectors are regulated through a system of renewable contracts, some of which are based on competitive bidding.

In the next section, key elements of the French approach to transit will be reviewed; the final section will highlight those aspects which may interest developing countries, many of which are in the process of creating an urban transport policy. The design of the institutional framework and the relationships within will be emphasized, rather than the details of performance. In this connection, the current preoccupation in France with reversing the past trend in transit finance, in which the travelers have been bearing progressively lower and lower load, is of little interest to this account; the regulatory system is flexible enough to permit this share to vary substantially among transit properties (see paragraph "Financing"). This flexibility is also reflected in the different ways local communities use the available sources of finance for capital investments and the changes in this financing mix over time, all of which come out of local political negotiations (2, 3).

TRANSIT ORGANIZATION IN FRANCE

Legislative Framework

The present organization of transit, indeed of urban transport in general, represents the cumulative effect of four laws and related decrees passed since 1973 (1,4,5,6):

(1) *Law No. 73-640 of 11 July 1973*, which allowed local governments to levy *versement transport*, a tax dedicated to transit, which was to provide the major funding source to fuel the resurrection of this mode;

(2) *Law No. 79-475 of 19 June 1979 (Loi relative au Transports Publics d'Intérêt Local)*, which clarified the relative roles of local and central authorities in connection with transit, and established specific contract types for transit properties (although these constraints have since been removed);

(3) *Law No. 82-1153 of 30 December 1982 (Loi d'Orientation des Transports Intérieurs)* which established basic principles of transport sector management, e.g., defined social character of urban transport services, confirmed the supremacy of local authorities in transit, stressed contractual rela-

tionships between various actors in the sector, guaranteed fair remuneration of transport operators for services provided, etc., and;

(4) *Law No. 83-8 of 7 January 1983 (Répartition des Compétences entre les Communes, les Départements, les Régions et l'Etat)* which established the principles and procedures for transfer of authority, property and means of finance from central to local/regional authorities.

The four key aspects of the French transit organization will now be reviewed, namely—the role of local government; the modes of operating transit properties; the sources of finance; and the approach to integrating transit with urban transport management and planning.

The Role of Local Government

The local governments in France have complete jurisdiction over transit services and disposition of financial means needed. The most typical institutional form is that of the association of communes, basic administrative units making up an urban area, into an organizing authority (AO) for transit, and other functions (4,7). An AO consists of elected officials from its constituent communes. Occasionally, a city is governed by a single commune (Marseilles); or, several small cities in a region may form a single AO, with the number of communes reaching several dozen. The geographical limits within which an AO exercises its powers, *le périmètre des transports urbains*, do not have to coincide with territorial limits of the associated communes, and serve purely to divide urban from interurban transport links. Once several communes form an AO, they give up their power to make unilateral decisions concerning transit (except in matters related to traffic regulation for which the jurisdiction is kept by individual communes).

The AOs can take several forms:

(1) *an Inter-communal Syndicate*: association of communes for managing transit and possibly other urban services;

(2) *an Urban District*: association of communes responsible by statute for fire services and housing, to which other responsibilities (including transit) can be added on an elective basis; and

(3) *an Urban Community (communauté urbaine)*, responsible by statute for the ensemble of urban public infrastructure and services, including transit, parking, streets, traffic signals, etc.; other responsibilities can be added on elective basis by decision of the relevant commune councils.

The AOs are legal owners of all transit vehicles, facilities and equipment, and are empowered to do the following:

(1) impose *versement transport* (VT), the local tax earmarked exclusively for transit finance (see sections headed "Financing through Transit Operators");

(2) make all the investment decisions;

(3) define transit policies, including all service specifications and tariffs;

(4) organize transit services whether by force-account (*en régie*) or through contracts with (private) transit operators; and

(5) enter into contract with the central government to get

grants for transit system development (*contrats de développement*) in exchange for diverse conditionalities related to transit policies, services offered and the program execution.

In addition to the influence exerted through development contracts and public loans, the overall policies expressed through laws and decrees, and the technical assistance to AOs, the central government also regulates two aspects important for transit financing: (1) it sets the maximum annual rates of tariff changes, and (2) it sets the maximum rates of the VT tax.

Financing

Transit tariffs in France cover, in the aggregate, only about 50 percent of direct operating costs (2); for individual transit properties, this ratio varies from a low close to 20 percent, to a high exceeding 90 percent (8). Several factors are at work here:

(1) social policy to keep fares well under levels needed for cost-recovery, the justification including a desire to affect modal choice in favor of transit (against the private car), redistribution of income objectives, and intention to tax the benefits accruing to non-users (employers, merchants, real estate owners, car drivers);

(2) sharp escalation of operating costs (2.2 percent per year in real terms between 1975 and 1983), due to increased wages and fuel costs; and

(3) rapid expansion in routes and services where demand response is lagging (or will never materialize at the level necessary to cover costs).

What tariffs do not cover is made up by subsidies, the key source being the local transport tax, *versement transport* (VT) (6, 9). Indeed, the VT has proved to be the engine driving the development of transit in France over the last 15 years. In the early 1980s, it provided the finance to cover about one-

third of combined operating and investment costs of transit companies in provincial cities. Instituted in 1971 for the Paris region, VT was extended (at the discretion of the local AO) to cities of 300,000 and more. This threshold has been reduced twice more: to 100,000 inhabitants in 1974 and to 30,000 in 1983. The tax is levied on all enterprises within the transport perimeter employing more than 9 people. The maximum rates are 2 percent in Paris and nearby suburbs; 1.2 percent in outer Paris suburbs (*grande couronne*); 1 percent for provincial cities of more than 100,000 people (but this is increased to 1.5 percent if the AO decides to invest in a large-scale project—tramway or metro); 0.5 percent for cities between 30,000 and 100,000 people. The tax base is salary mass up to a ceiling established for social security payments.

The VT is a dedicated, non-fiscal resource (in the sense that it can be accumulated and that it is instituted by a decision of an AO, outside the political decision-making process normal for other local taxes). It is deducted together with other social security charges (health, pension, etc.). Its statutory uses include the following:

(1) compensation for tariff reductions benefiting salaried workers;

(2) financing investments in new vehicles, infrastructure and equipment, as well as for annuities on debts related to past investments;

(3) financing improvements, reorganizations, extensions or introduction of new services (including promotion); and

(4) financing operating deficits (since 1982).

In 1975, only 26 agglomerations had introduced the VT; this number increased to 53 in 1983. The amount of funds collected has been large: in constant 1984 FF, VT brought in about FF 950 million (\$109 million in 1984 terms) in 1975; by 1977, this exploded to FF 2,480 million (\$285 million), hereafter increasing at a slower rate to FF 3,750 million in 1984 (\$430 million). In 1984, the contributions varied from about FF 98 (\$11) about FF 343 (\$39) per inhabitant, depending on

TABLE 1 AMOUNTS OF VT TAX COLLECTED IN CITIES OVER 250,000 INHABITANTS (8, 10)

Urban Area	1982 Population (000)		Versement Transport (FF million) c/				
	a/	b/	1978	1979	1980	1981	1982
Bordeaux	640	589	49.30	62.80	78.54	87.84	111.49
Clermont-Ferrand	256	240	19.15	29.51	46.40	54.10	62.21
Grenoble	392	363	44.47	50.63	57.03	61.47	71.92
Lille	936	1048	124.49	179.61	218.28	227.20	252.67
Lyon	1221	1106	206.41	241.84	270.40	303.28	336.70
Marseille	1111	874	136.60	130.10	145.10	158.04	214.20
Montpellier	221	248	15.50	21.10	23.60	29.66	40.50
Nantes	465	465	47.28	49.10	53.00	66.60	113.00
Nice	449	337	23.40	26.54	29.60	41.60	51.51
Rennes	234	275	23.22	28.75	36.71	49.90	55.95
Strasbourg	373	406	40.50	42.15	51.80	63.12	69.60
Toulon	410	299	15.11	16.58	28.70	35.53	37.48
Toulouse	541	553	55.00	59.88	68.03	78.96	91.03
Tours	263	227	22.31	26.06	31.05	38.19	44.60
Valenciennes	350	297	21.43	29.24	30.96	36.54	40.35

a/ Agglomeration

b/ Within urban transport perimeter

c/ In current terms; exchange rates in FF to \$ were: 4.51 (1978), 4.25 (1979), 4.23 (1980), 5.43 (1981) and 6.57 (1982).

the urban area, with an average of FF 236 (\$27). Table 1 shows the actual amounts of VT collected in the largest provincial cities.

The application of the VT yield changed over time: between 1975 and 1982, the proportion used to subsidize operating costs varied from 40 to 47 percent, but increased to 60 percent in 1983, the first full year after the use of VT funds had been legally extended to any transit-related need, investments and operating deficits alike.

In addition to traffic revenues and the VT, sources of the transit finance include the following:

- (1) "normal" fiscal resources of local communities;
- (2) loans from Fonds de Developpement Economique et Sociale; and
- (3) state grants for large-scale investments (40 percent for metros, 50 percent for tramways). In some cities, these grants are given through a system of development contracts signed between the Ministry of Transport and AOs for 2-3 years (renewable), with conditions depending on the extent and pace of transit development in the agglomeration.

It is a striking fact that transit subsidies in France are a very much a local matter. According to unpublished 1980 data from Centre d'Etudes des Transports Urbains, in provincial cities which instituted the VT tax, transit operating costs were covered as follows:

Source	Percent
Traffic revenues	54
VT tax	27
Local fiscal sources	19

For 100 provincial networks, the sources of finance for aggregated operating and investment costs were (in 1980 millions of francs and dollars):

Source	Percent	Francs	Dollars
Traffic revenues	32	1,859	439
VT tax	33	1,925	455
Local fiscal sources	15	863	204
Loans	15	885	209
State grants	5	324	77
	100	5,856	1,384

It is also of interest to see the application of the above funds:

Application	Percent	Francs	Dollars
Operating costs	60	3,520	832
Buses, depots, equipment	12	720	170
Streets and traffic	4	210	50
Metros, tramways	14	800	189
Loan annuities	9	550	130
Compensation SNCF and non-urban	1	56	13
	100	5,856	1,384

It should be noted that there exist transit systems which operate on force account without relying on the VT tax, for example the public company of Saint-Malo, where the ratio of revenues to direct operating costs is 84 percent, the rest of funds coming from the communal budget.

Due to the combined effects of substantial investments in capacity over the past 10 years (i.e., considerably increased

loan repayments), the decline in the proportion of costs financed through traffic revenue, steady increases in operating costs, and the stagnation of the yield of the VT tax (in turn due to economic stagnation in France), the transit system is starting to feel the financial pinch. The tendency to tap conventional urban tax resources is quite pronounced (6). The root causes lie in past pursuit of a subsidy approach without sufficient controls to maintain efficiency and financial discipline; key examples cited by the critics include irresponsible, politically motivated tariff policies (imposed by the central government), unbridled investments made by AOs for the development of new lines, and padded labor contracts (11). Evidence appears to support the critics and a debate is underway to find ways to economize on spending and look for new sources of finance, as well as develop better techniques for financial planning (12, 13).

Transit Operators

Of the more than 100 transit networks in France (referring to cities with more than 30,000 inhabitants), about 20 percent are operated by the AOs on force account; the largest of these public companies is Régie Autonome des Transports Parisiens (RATP). The remaining 80 percent are operated by private companies under contracts with AOs. The contracts, usually for a 5-year period, are awarded through competitive bidding.

A large part of the market is divided among the following three private companies (14):

- (1) TRANSEXEL, which operates some 30 networks (including subways in Lille and Lyon);
- (2) SCET, with 15 networks; and
- (3) CGFTE, with 8 networks.

Each of the three key operators has a somewhat different organizational approach. The TRANSEXEL typically sets up subsidiary companies in individual cities: these companies then enter into contract with AOs. The CGFTE uses a more centralized approach, involving the head office and branch offices. The SCET introduced a system of mixed-economy (public/private) companies for each network: the shareholders include the AOs, chambers of commerce, banks and (through a symbolic contribution to capital) the SCET itself. Each of these city-based companies signs a service contract with an appropriate AO, as well as a technical assistance contract with the SCET. The main advantage of the SCET approach is that it involves direct participation (*contact organique*) of the elected officials (AOs) in managing transit, while the private nature of the company permits it to operate in ways normally not open to publicly owned enterprises. The three operators show other differences as well: for example, the TRANSEXEL is very keen on marketing, the CGFTE stresses engineering skills and, generally, the supply side of the operation, while the SCET has an integrative, urban management-type orientation. In either case, the engineering and managerial knowledge amassed by these operators is considerable and its vertical integration through mother-firms is a laudable achievement. Another type of integration of all private operators is achieved through membership in Union des Transports Publics, which acts as an information clearing house and

lobbying organization, as well as a body for collective bargaining with workers' unions.

Contracts between AOs and operators specify the services to be provided and divide the responsibilities and risks with regard to investments, operating costs, and receipts. This involves listing the following:

- (1) route network to be served, as well as quantitative and qualitative description of services;
- (2) rules for adjusting service specifications in the course of the contract;
- (3) tariffs to be charged;
- (4) means to be provided by each party (in parallel with the contract, a program of investments and other actions may be, but is not always developed);
- (5) remuneration for services and rules for adjusting these (whether to respond to inflation, or to adjust for marginal changes in the services offered); and
- (6) details of contract supervision, arbitration, start and end of contract period, etc.

Though four contract types were prescribed by law in 1979, only two types have taken root (15):

(1) Fixed-ceiling (*prix forfaitaire*) contract: an agreement to pay the operator a fee based on unit cost (per bus-km) and the amount of bus-km of service to be supplied; risks on the cost side are thus borne by the operator, but all investment and commercial risks are taken by the AO; in practice, such contracts also include marginal fees to pay for changes in supply demanded by the AO, as well as incentive formulas meant to increase revenues.

(2) Management Contracts (*contrat de gérance*): this has been the most popular contract type; the AO takes all the risks, paying the operator his actual expenses, based on a provisional budget which can be revised in the course of the year; in addition, there is a bonus for good management.

Since the contracts described above have not been sufficiently conducive to increased productivity of operations, new types of contract are being sought, with a goal of more balanced risk-sharing between the two parties (16). So far, this search has not produced any substantial innovation. In some smaller cities, contracts have been signed in which operators have undertaken both cost and revenue risks but within a very narrow band, based on inflexible service specifications and numerous safeguard clauses for the operator (including renegotiating before the normal contract period expires).

Integration of Urban Transport

The creation of AOs for transit, the introduction of the VT tax, and the subsequent development of transit in French cities took place with relatively weak links to vitally related processes of traffic management, road planning, and urban development. This is not to say that complementary developments in traffic management, road planning, and urbanization have not occurred: witness the numerous French cities with bus priority signals and lanes (even exclusive bus bridges, as in Nantes); the decrease in state aid for highway construction and a shift of local resources away from road construction

towards traffic operations and road maintenance; as well as the explosion of investments in downtown renewal tied to large-scale transit projects. What was absent, however, were formal tools and processes for integrating all urban transport planning and management (as opposed to planning by mode) and establishing links to the public and private decision-making related to urbanization (17). Most urban general plans in France were made about 1970; though outdated (in concepts, policies and numerical side) they are still the only documents with legal weight. Traffic circulation plans carried out in numerous cities in the 1970s with state subsidies (about 50 percent) had integrative elements, but on a minor scale. The division of jurisdictions (AOs responsible for transit, communes for urban streets and traffic, the state for national roads) made it difficult to deal with intermodal relations, essentially on a case-by-case basis.

The law of 30 December 1982 (referred to previously) created a tool meant to fill this void, a new type of urban transport plan, *plan de déplacement urbains* (PDU), with the following main features (18–21):

(1) PDUs are multimodal (including walking) and consist of general principles, policies, management programs and development plans for the agglomerations in question.

(2) a PDU applies to the territory within the transport perimeter (or its part).

(3) PDUs must be accompanied by an implementation plan which includes financing of investments and operating costs (a major advance relative to past practices);

(4) the authority for developing a PDU is given to AOs;

(5) PDUs must be subjected to public inquiry; they are adopted by the AO, following the approval by the member-communes; and

(6) the implementing authority remains with traditional agencies.

It should be noted that PDUs have been defined as studies, and no legal power has been assigned to them. The state has refrained, both on paper and in practice, from using its subsidies (notably through the development contracts for transit) to enforce integration. Finally, no relationship has been defined between PDUs and urban development plans.

No specific methodology has been decreed for the PDUs so far. The first generation of six cities which have developed PDUs, approached them in different ways, both with respect to political power-sharing arrangements and in technical matters. The stress on transit dominates all studies, however, as does the effort to revive the "forgotten" urban modes (walking, bicycling); they cover both the short and long term and propose actions ranging from tariff policies and transit network restructuring via safety campaigns to infrastructure development plans. It also appears that, apart from transport actions, the major output of these exercises relates to the modes of intercommunal cooperation and public participation.

WHAT LESSONS FOR DEVELOPING COUNTRIES?

The problems identified above notwithstanding, transit in France works very well: the services are satisfactory, the production side is reasonably efficient and, importantly, the sys-

tem's dynamic nature allows it to evolve. What lessons could be drawn therefore for designing transit institutions in developing countries?

Five elements seem to this writer to hold keys to the French success in transit: the coherence of the system, the contracting approach, the role of competition, the decentralization of political power, and stability of the source of finance. Of the five, the first three offer a clear model for developing countries; as for the last two, the message is ambiguous.

Coherence

The French approach to transit is coherent because all important aspects of the system have been considered singly and in relation to each other. There exists an explicit policy, with basic principles expressed in laws which name all the key institutions, define their relationships, state political preferences and provide means for implementation (sources of finance and procedural tools). Subsequent decrees and advisory documents provide further details, while leaving substantial maneuvering space to actors, in line with the decentralization policy. It is worth repeating that the policy evolved out of a strong political consensus (for example, the VT tax was instituted by the right-of-center government, whereas the key principles were legislated later on by the political left-of-center).

It is this coherence which is lacking in developing countries: policy statements rarely exist, while the implicit policies are incomplete or contradictory, and relations between key actors are undefined. In several North African countries, for example, it is an established practice to use transit, particularly transit tariffs, as means of social policies (e.g., income redistribution), without the matching provision of compensation to transit enterprises; this practice has pushed once-profitable transit companies into bankruptcy. By contrast, French law defines transport as a social good, to be provided to certain users at reduced prices, and assumes that transit benefits are diffused beyond the actual transit users; from these premises follows the use of tariffs which do not cover costs, but also the principle of fair compensation and the principle of taxing secondary beneficiaries to provide means of creating equilibrium in transit accounts. Similarly, the principle of decentralization is matched by transferring the financial means to the local level.

Contracting Approach

The relationships among the principal actors take the form of contracts: between AOs and transit operators, between AOs and the state, between different AOs (e.g., between urban and regional AOs). Though actual contracts vary in degree of legality and need improvement in terms of incentives and balance in risk-bearing, they establish measurable goals (thus permitting evaluation and correction); clarify relationships and mutual responsibilities; and stress partnership and negotiation. Contrast this with a rather typical situation in developing countries where the relationships among the parties involved are murky, and the style is that of master (usually a technical ministry) to servant (a bus company).

Competition

For a service like urban public transport, which is held to provide an essential public good and thus may depart from market rules, the preservation and apparent well-being of private bus operators in France is a worthwhile achievement. Although the private sector is excluded from making capital ventures in transit (which would explain the probable oversupply of transit in some cities and an apparent low weight given to economic/financial aspects in some large-scale investment decisions), the competitiveness in the sphere of knowledge is very much alive and has resulted in tangible gains, both with respect to the technical dimension of transit operations and the relations between AOs and operators. It should be noted here that the many potential benefits from further involvement of private enterprise in transit are possible within the system structure as it exists now, requiring changes in parameters only (tariff policies, contract types); the system, except for the Paris region, seems to be evolving this direction (22).

As matters now stand, the role of French private enterprise in transit offers a model towards which publicly owned transit in many developing countries (notably in North and West Africa) could evolve with beneficial effects, without departing from the path of other social and political processes in these countries, as an outright divestiture might.

Decentralization

The redistribution of political power and fiscal means from central to local levels has been among the key elements contributing to the transit resurrection in France (1). Independent of arguing for decentralization as a way to increase democracy, in the field of transit in France it has permitted experimentation and variety: in technical matters, in tariff policies, in modes of organization and, importantly, in amounts of transit investment per capita. It may even have induced an element of financial responsibility, notably absent when urban wish lists are submitted to central governments for funding. In this respect, the parallels between decentralized decision-making and markets are quite strong. Nor should one disregard the benefits of matching local wishes to local resources, in those situations (however infrequent) where the politics of neglect of transit in well-to-do provincial cities are practiced by hard-strapped central governments.

The ambiguous aspect of decentralization lies in the capacity of local governments to muster the engineering, financial, and legal skills necessary to exercise their newly won powers to (inter alia) invest in and manage transit. Even in a highly developed country like France, it appears that local authorities, specifically AOs, have not possessed that capacity, and may not yet have it, except for some very large cities, though more than a decade has passed since AOs were created. They were certainly no match for the highly professionalized management of operating companies, with the result that many past investments were made without concern for the long-term impact of loans on local finance; forecasts of sources and applications of funds have only recently become evident in investment studies and research work (13). In this context, witness the recent founding of an association of AOs, an attempt to match vertical integration of operators (23).

If the situation described above has been the case in France, the absence of technical/financial skills in local government would be much more serious in developing countries, where even the central government may lack such expertise. It may well be better to build up central advisory units and regional offices of central institutions. Nor would it be possible to pursue decentralized decision-making in the urban transport sector in isolation from progress on the general front of political power-sharing.

Source of Finance

Adoption of the VT tax as a dedicated source of finance was probably the single most important element reviving French transit. It is illuminating that the financial commitment actually preceded policy development. The VT tax as a concept has some economic underpinning (diffusion of benefits beyond direct users of transit); it is a local source (thus providing some balance between local appetites and means), it is stable (based on salary mass), it is simple to collect, and it is flexible (rates can be increased depending on transit development strategy, or decreased or cancelled, or not instituted at all, according to political consensus). For all these reasons, the VT device should provide a useful model for developing countries.

Unfortunately, the VT tax as introduced in France is also a flawed tool. Its administrative simplicity is much stronger than its economic justification. Aside from traditional arguments against subsidies (not the least of which is that availability of large funds leads to overinvestment and overuse of transit, as it may have happened in France), the problems with the VT include the following:

(1) VT captures benefits from one class of potential beneficiaries (employers), but leaves others out of the equation, notably merchants employing fewer than 9 staff and real-estate owners (although the latter do pay the *taxe d'équipement*, part of which may flow into the transit investment funds);

(2) the amount collected is not related to the size of secondary benefits, hence the resulting investment budgets have been arbitrary; the availability of these funds may have led to progressively diminished direct user charges—farther and farther from economic reality;

(3) VT is inequitable, in that some employers benefit more from its proceeds and others less (or not at all, as used to justify several "VT strikes" in France): for example, merchants employing 9 or more staff do pay the VT, but their real benefits from transit relate not to their employees but to customers; and

(4) for small-scale enterprises, VT works against employment, which potentially constitutes its most serious flaw relative to developing countries, especially when it also includes threshold effects (concerning the size of enterprises).

The VT is therefore not recommended for "export" to developing countries in this particular French version. Alternative fiscal tools should be sought; they should be local but provide a better match between the tax, the classes of beneficiaries, and the size of benefits.

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