

Railway project

Summary of the Operation Performance Evaluation Review (March 2005)

THE PROJECT

Because of this country's size and heritage as a centrally planned economy, rail transportation plays a vital role in virtually every segment of the economy and has a direct impact on growth, industrial development, regional integration and foreign trade. Rail is the preferred means of transport for all major types of cargo with the exception of oil and gas. The Ministry of Railways and its successor organisation ("Railways") managed one of the world's largest railway enterprises. In 2003 Railways was merged with the Ministry of Transport (MoT), but continues to operate under MoT's governance as an incorporated open joint-stock company. The Company is a vertically integrated monopoly provider of cargo and passenger rail services in the country. It is the sole owner of railway infrastructure and is 100 per cent government-owned.

During the early 1990s, various government bodies and enterprises approached the EBRD for both technical and financial assistance. Surveys into the railways sector and the roads and road transport sector were approved by the Bank in February 1992, together with two related sub-sector surveys (water and air transport). Based on these surveys, a comprehensive technical cooperation (TC) programme was defined in 1993, consisting of TC operations which prepared specific railway investment projects for EBRD financing and covered six technical areas and advice in two management areas. In April 1996 the Bank approved a sovereign loan equivalent to ECU 97 million to the Company. In support of this investment, two TC operations helping to implement the market structure and provide institutional assistance were launched in 1996 and completed in April and June 1999, respectively.

PROJECT RATIONALE

Economic activity in the country started falling in 1988-89. Production cut-backs spread from one industry sub-sector to another and rail traffic, being in the command economy directly linked to industrial output plans, began to decline dramatically with payments by railway customers being delayed. The Company was not experienced enough to respond quickly and adapt to the new economic environment. Traditionally, the Company's investments were dominated by infrastructure capacity enhancements rather than by quality improvements. These investments were not competitively supplied and were, technology-wise, behind Western railway systems. Without the necessary investment in assets, the equipment deteriorated quickly and, together with severe under-investment and backlog in infrastructure maintenance, the Company's ability to meet transport demand was limited.

OVERALL ASSESSMENT

The overall performance of the project was rated *Successful*. The project was in compliance with the prevailing country strategy and sector policy. On balance, the achievement of objectives was *Good*: track rehabilitation and upgrading works on selected routes (fully and successfully achieved), supply and installation of data communications equipment (failed to meet its original medium-term objectives, with achievements made unintended and lagging behind expectations); commercial track maintenance (satisfactory, albeit not followed-up by the Company); railways

modernisation strategy (satisfactory). Transition impact of the project was rated *Good*, and the rating for its long-term potential is regarded as *Good*, with a medium risk to transition potential attached. Although the project had no privatisation agenda, it definitely helped the country progress the Company's commercialisation agenda, provided good technology/know-how and skill transfers and promoted new standards for business conduct. Forward and backward linkages were generated by stimulating joint venture operations and new production lines for railway equipment, and the project helped to promote sector reform processes. The Bank's additionality is *Verified in all respects* since it was the only external provider of financing. The Bank contributed to the modernisation of the railway system, although it is still in its early stages. The environmental performance of the project was *Good* and the environmental change induced was *Some*. Bank handling was rated *Good*. The project's appraisal was however biased by optimistic assumptions about the prospects of a second stage of the modernisation programme. It put too much faith in the client's commitment and capability to establish a functional technical description of a complex IT project. Numerous problems ensued during the project implementation but the monitoring and trouble shooting of the Bank's Transport Team was good and thus helped the operation from derailing and prevented the Client losing face.

MAIN OPER ISSUES AND THE LESSONS LEARNED

Early assessment of institutional delivery and absorption capacity is essential for smooth project implementation. And, for interventions concerning rapidly changing technologies, consultant TORs and tender specifications should allow for sufficient flexibility.

Project selection conformed to the Bank's country and sector strategy, but the appraisal overrated the long-term commitment and the absorption capacity of the Company as well as its capabilities to steer the project to success under unfavourable framework conditions. The initial project objectives were possibly too ambitious and the resources engaged were not able to respond to all information needs. One of the key factors for success is the degree of commitment from the local client.

For consultant-recommended 'high-tech' proposals, a second assessment of its the plausibility is advisable.

In the case of a consultant, recommended for a 'high-tech' sector-specific IT solution which, by its very nature, could not be adequately overseen, it would have been appropriate to re-evaluate the proposal of the consultant by a second independent one before advancing with tender specifications and tender procedures. Albeit more expensive and time-consuming, such double-checking reduces the risk of introducing inappropriate technology.

Good corporate relationships with strategic partners are an asset that should extend beyond individual operations.

In view of the relatively small offer at stake, it was apparently difficult for the Bank to establish a full relationship with a client which is one of the strategic economic drivers in the country. Additionally, any information relating to the Company was kept under the veil of "state secrecy" rendering it cumbersome to access required data. Centralised hierarchic command structures of the former organisation prevented any direct contact by consultants with the country's counterparts without going through the International Relations Department of the Company. The adopted, less prescriptive, approach and seconding of the Operation Leader to the EBRD's local office to ensure permanent dialogue and sound support, both recognised by the client, were clearly successful. The Transport Team deserves full credit for this achievement. Upon completion of the project that coincided with the Company's reorganisation, the Bank should have taken advantage of the unique relationship it had successfully established through contacts at the highest level, by employing a "staying engaged" approach.

The state of TC files requires urgent management attention.

The Evaluation Department faced difficulties in obtaining the complete operation files and struggled to obtain a complete set of investment-linked TC operation files. It is unacceptable that out of the related 14 TCs for which the files were requested from (external) archives, those of only two TCs could be made available, together with some boxes containing obviously misplaced procurement files from other projects and, anyway, compiled in a non-systematic manner. Even with the help and intervention by the OL it was not possible to identify whether or not there are any more TC files still available.