



<b>1. Project Data:</b>		<b>Date Posted :</b> 06/21/2004	
<b>PROJ ID:</b> P036013		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Railway	<b>Project Costs (US\$M)</b>	383	
<b>Country:</b> Romania	<b>Loan/Credit (US\$M)</b>	120	120
<b>Sector(s):</b> Board: TR - Railways (100%)	<b>Cofinancing (US\$M)</b>	142.2	
<b>L/C Number:</b> L3976			
	<b>Board Approval (FY)</b>		
<b>Partners involved :</b> EBRD, PHARE	<b>Closing Date</b>	12/31/2001	09/30/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**  
The objective of the project was to support and deepen the restructuring process, which the Railways and the Government had initiated. The project would also support policy measures that were embodied in the new Railway Law, the Restructuring Action Plan (RAP), and the Performance Contracts that the Infrastructure and Passenger Companies had agreed with the Government.

**b. Components**  
Track Renewal and Maintenance on Priority Routes

- Integrated Railway Information System (IRIS)
- Telecommunications and Signalling
- Environmental Improvement
- Traction and Depots Improvements
- Rehabilitation of Passenger Coaches and Freight Wagons
- Technical Services

**c. Comments on Project Cost, Financing and Dates**  
The project closed on 9/30/2003 after 21 months delay. A nine month delay was caused by the rebidding of the Integrated Railway Information System (IRIS) component. Further delay was caused due to technological changes in IRIS software. The loan was fully disbursed. There were many parallel financiers and that Bank funding was only 6.5% of the whole program.

**3. Achievement of Relevant Objectives:**  
The project achieved its objective of supporting and deepening the process of restructuring of Romanian Railways. New management practices were adopted and rolling stock was modernized. During project implementation, the railways faced unexpected declining demand due to economic downturn.

- A Surplus Asset Disposal Company was created to sell surplus and obsolete rolling stock (wagons and locomotives). This was liquidated once the bulk of obsolete assets were disposed. The proceeds from the sale was used to recapitalize and modernize the remaining active fleet.
- The project supported the development of Integrated Railway Information System (IRIS) which allows for centralized management of trains, infrastructure and rolling stock. IRIS consists of four sub-systems: (i) Railway Infrastructure Management, (ii) Rolling Stock Management, (iii) Train Circulation System, and (iv) Freight Operations and Commercial Management System.
- A Canadian based costing model was installed to determine passenger and freight tariffs. The model can also be used to determine the profitability of railway line segments.
- The staff has been reduced by almost 47% from 137,139 in 1996 to 72,744 in 2003. This was achieved through voluntary separations and by separation of 34 non-core activities of the railways.
- Substantial progress has been made in financial restructuring of the Romanian Railways. The RAP financial targets for working ratio and debt service coverage ratio were met. Operating costs declined only marginally.
- A new law was enacted and most of the non-core activities were privatized.

**4. Significant Outcomes/Impacts:**

- Privatization of a large number of the non-core activities. At project closing 16 out of 34 non-core activities were privatized and 9 more are expected to be sold by end 2004.
- Substantial increase in labor productivity. The labor productivity has increased from 277,000 Traffic Units (TU)/employee in 2002 to 313,000 TU/employee in 2003, which is very close to the 360,000 TU/employee target. The labor productivity is much lower than Western Europe (700,000 TU/employee) and Poland (450,000 TU/employee) but better than Bulgaria (200,000 TU/employee).
- Decline in the net deficit of railways from US\$ 214 million in 1995 to US\$ 44 million in 2002.
- Increase in the capacity and reliability of the internal railway communications infrastructure has been increased. The project supported installation of 3,530 km of optical fiber, 60 Siemens High Capacity Switches, 224 switches of different capacities and LANs (Local Area Networks).
- Romanian railways are now compatible with the European Union Standards.
- Decentralization of managerial services, not envisioned at the start, was accomplished.

#### 5. Significant Shortcomings (including non-compliance with safeguard policies):

Insufficient cost recovery of passenger services. During project implementation, the passenger services incurred over 90% of losses in the railways as a whole.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Highly Satisfactory	Highly Satisfactory	
<b>Institutional Dev.:</b>	High	High	
<b>Sustainability:</b>	Highly Likely	Highly Likely	
<b>Bank Performance:</b>	Satisfactory	Highly Satisfactory	The overall Bank Performance is rated Highly Satisfactory for the following reasons: <ul style="list-style-type: none"> <li>• The project preparation took into consideration the Romanian Governments objective of establishing a new legal and institutional framework for Romanian Railways;</li> <li>• During the implementation of IRIS, supervision efforts were intensified; and</li> <li>• Project components were completed and implemented according to original targets and goals.</li> </ul>
<b>Borrower Perf.:</b>	Highly Satisfactory	Highly Satisfactory	
<b>Quality of ICR:</b>		Satisfactory	

NOTE: ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

- In projects with significant institutional development or restructuring objectives, the supervision needs to be much broader than just the review of the progress of project components. Supervision missions need to become review and consultation meetings to guide the process towards the shared objectives between the client and the Bank. For effective implementation, the Bank sometimes needs to increase supervision intensity.
- The restructuring projects should not be spelled out in detail far in advance, **but a carefully formulated mission statement and mandate is needed.** If there are specific targets, they should be reviewed and revised from time to time.

#### 8. Assessment Recommended? ☒ Yes ☐ No

**Why?** To verify the project ratings and to draw lessons from the Romanian railways restructuring experience and the implementation of the staff reduction program.

#### 9. Comments on Quality of ICR:

The overall quality of the ICR is satisfactory, albeit with three shortcomings:

- The ICR does not discuss staff retrenchment issues particularly the steps taken to minimize the social cost of staff retrenchment such as retraining and placement assistance.
- The ICR did not recalculate the economic rate of return even though ERR was calculated during appraisal.
- There are discrepancies in the cost tables in Annex 2. One of the table shows only the Bank contribution while the other shows both Bank and Borrower contribution. Appraisal and actual cofinancing is recorded as US\$ 0.0 millions. It is difficult to ascertain the actual total project cost and compare it with the appraisal estimate of US\$ 383 million.

