ICR Review
Operations Evaluation Department

Report Number : ICRR11489

1. Project Data:		Date Posted :	05/28/2003	
PROJ ID :	P008315		Appraisal	Actual
Project Name :	Railway Rehab	Project Costs (US$M)	296	280
Country :	Bulgaria	Loan/Credit (US$M)	95	80
Sector(s):	Board: TR - Railways (100%)	Cofinancing (US$M)	75	90
L/C Number :	L3922			
		Board Approval (FY)		95
Partners involved :	EBRD, EU	Closing Date	06/30/2001	06/30/2002
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2. Project Objectives and Components

a. Objectives

The project is the first Bank loan in Bulgaria for the transport sector . Its main objective was to support and deepen the restructuring process which the Bulgarian State Railways (BDZ) and the government had initiated. In particular, the project was to support a set of key policy measures, including : (i) the Railway Law, which clarified the role between BDZ and the Ministry of Transport and Communications and paved the way for the reorganization of BDZ . The Law was enacted in June 1995, and its approval was one of the conditions for loan effectiveness; (ii) the five-year Restructuring Action Plan (RAP), which sets the reform goals, implementation actions, timing and operational and financial targets for BDZ; and (iii) Contract Plan between BDZ and the government, which allowed BDZ to operate commercially and for the government to compensate BDZ for providing socially important but potentially unprofitable services, or what is called the Public Service Obligations (PSO). The signing of the Contract Plan was also a condition for loan effectiveness .

b. Components

The project had nine components, of which three components were financed by the Bank . Only these three components were evaluated by the ICR, as follows :

1) **Track Renewal and Maintenance ($131 million)**, including the renewal of 414 km. (out of 1880 km. of priority railway lines), replacement of track maintenance machines, improved sleepers, re -equipment of the rail welding shop, and the introduction of wheel and flange lubricators . The Bank was to finance the purchase of all materials for track renewal and machines while the government was to finance the installation works .

2) **Management Information Systems (MIS) ($9 million),** through design and implementation of passenger information, freight operation, and financial management systems . The freight and passenger information systems would cover the entire network and organization of BDZ in online operation while a modern financial management system would support BDZ's reorganized financial and accounting functions .

3) **Training ($1 million) for BDZ's management** , particularly in the fields of marketing, strategic planning, finance and accounting, human resources, change management, as well as technical and operational aspects of rail operations .

- The six components financed by EBRD (European Bank for Reconstruction and Development) and the European Union (EU): (a) signalling and telecommunications ($30 million); (b) track maintenance machines and spare parts coach rehabilitation ($60 million); (c) traction and rolling stock maintenance ($15 million); (d) rehabilitation of passenger coaches ($26 million); (e) locomotive driver training simulator; (f) technical assistance ($2 million).
- EBRD prepared a separate evaluation for the six components that they financed .

c. Comments on Project Cost, Financing and Dates

The total project cost was $280 million compared to the appraisal estimate of $296 million. The Bank provided a loan in the amount of $80 million, compared to the appraisal estimate of $95 million. Co-financing was provided by EBRD/EU of $90 million compared to the appraisal estimate of $75 million. Government/BDZ provided a counterpart financing of $109 million, compared to the appraisal estimate of $126 million. Shortfall in government counterpart financing was compensated by an EU grant of 20 million Euros to finance the installation works for track renewal and maintenance.

The project's closing date was extended once to June 30, 2002 (The ICR indicated a closing date of June 30, 2000 but the Loan Agreement noted a closing date of June 30, 2001. The Evaluation Summary (ES) followed the closing date in the Loan Agreement.)

3. Achievement of Relevant Objectives:

The project's main objective to support and deepen the restructuring of BDZ was achieved, but with significant shortcomings.

1) Achievements under the RAP include the privatization of BDZ's non-core activities, maintenance and rehabilitation of tracks (81 percent of the target), and adoption of international auditing standards and annual audits; but significant shortcomings were also noted including BDZ's inability to improve its financial position; implement the management information systems for freight, passenger, and finance; close unprofitable tracks; and reduce its staff .

2) The Contract Plan was not effectively implemented. Although the concept of PSO (see section 2) was introduced, the government could only provide limited funding for PSO payments and BDZ was not willing to close services that were not paid for by the government. Further, a transparent methodology for assessing PSO payments acceptable to both parties have yet to be developed.

3) Although the 2000 Railways Law established BDZ into two separate entities, and created a regulatory body, the Railway Administration Executive Agency; BDZ does not yet have full autonomy to operate as a commercial entity . For instance, tariff setting is still under state authority.

- Although the project's objectives were to support the Railway Law, the RAP, and the Contract Plan; the project's major components (track renewal and maintenance, and MIS) primarily supported the Infrastructure component of the RAP (see SAR's Annex 1, and ICR's Annex 8).

4. Significant Outcomes/Impacts:

- BDZ has been split into two companies; one in charge of infrastructure, and the other, in charge of transport .
- Despite a slow start because of legal and administrative problems, and excess capacity in the worldwide railway supply industry; BDZ's non-core activities have been either privatized or terminated (13 units were privatized and 3 units were terminated).
- Design and implementation of sound environmental measures are now mandatory for any future project in the railways sector.
- Adoption by BDZ of the International Accounting System and annual financial audits .

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

- Lack of clarity and specificity of objectives and of a direct link between project objectives and components (as noted in the ICR).
- Serious disagreements between BDZ and the contractors and in the non-completion of systems changes crucial to BDZ's commercial viability.
- Shortfalls in government counterpart funds, brought about by the 1996/1997 economic and financial crisis, delayed procurement and installation of works.
- Inability of the government to undertake difficult measures, including tariff increases and termination of loss making services, contributed to the persistently weak financial position of the railways sector .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	(Rating is not available under the ICR's 4-point rating scale). See section 3.
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Non-evaluable	The railways sector remains financially fragile for various reasons, including the government's inability to close unprofitable lines, reduce BDZ staff, and increase tariff rates. Although, there is continuing support for the railway sector financial reforms through the Bank's Programmatic Adjustment Loan, the

			reform process is ongoing and its outcome is yet to be determined, and thus, the financial sustainability of BDZ at this time is uncertain. (EBRD rated the overall client financial performance as unsatisfactory).
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		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:

1) Modernizing and introducing systemic changes in an organization that thrived under a centrally planned environment would require a lengthy process of consultation and constituency building to ensure sustained commitment and support from various stakeholders.
2) To avoid delays during project implementation, the Bank should adequately assess the Borrower's capacity in complying with loan conditions especially involving institutional changes and counterpart financing

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The quality of the ICR is rated as Satisfactory. The ICR, however, is weak in the following areas: (i) isolating the project's contribution to the restructuring of BDZ; (ii) internal consistency, especially in its discussion of design issues and the Bank's performance. While the ICR acknowledged that the project lacks clarity and specificity of objectives (see section 3.5 of the ICR) and that the turnkey approach for the MIS component may have undermined government ownership (section 8 of the ICR); the ICR did not attribute these design issues to the Bank's performance; and (iii) more substantive discussion on the outcomes of the training component of the project .