



<b>1. Project Data:</b>		<b>Date Posted :</b> 06/26/2003	
<b>PROJ ID:</b> P040028		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Railways Restructurg	<b>Project Costs (US\$M)</b>	700	619.06
<b>Country:</b> Brazil	<b>Loan/Credit (US\$M)</b>	350	257.6
<b>Sector(s):</b> Board: TR - Railways (99%), Central government administration (1%)	<b>Cofinancing (US\$M)</b>	0	0
<b>L/C Number:</b> L4046			
	<b>Board Approval (FY)</b>		96
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2000	06/30/2002
<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 overall objective of the project was to reduce the cost of freight transport in Brazil's main corridors by restructuring and privatizing the Federal Railways (RFFSA). Specific objectives were to:

- (a) improve performance by restructuring and concessioning RFFSA's operations to private operators, and by restructuring its finances to settle debts and labor liabilities;
- (b) increase productivity through staff retrenchment and emergency rehabilitation of critical assets in order to make the proposed concessions viable, while minimizing the social cost of staff retrenchment;
- (c) enhance competition through regulatory reform, with a view to increase the railways market share and reduce freight transport rates.

**b. Components**

The project consisted of the following six components:

- (a) Operations Restructuring and Concessioning Component (US\$13.5 million or 2.2% of the total actual cost) - division of railways into six regional operations, establishment of interchange traffic arrangements and trackage rights, preparation of bidding documents, negotiation of concession and lease contracts, transfer of rail assets to concessionaire, closure of RFFSA's operational divisions, and the organization and strengthening of RFFSA's technical supervision units;
- (b) Staff Retrenchment Program (US\$442.8 million or 71.5% of the total actual cost) - provide appropriate incentives for early retirement, voluntary separation, severance payment schemes for remaining redundant staff, retraining programs and outplacement assistance, reduce RFFSA staff by about 18,000 (in addition to 4,000 staff that retired in 1995), increase staff productivity while minimizing the social costs of staff retrenchment.
- (c) Emergency Rehabilitation Program (US\$145.4 million or 23.5% of the total actual cost) - emergency rehabilitation, repairs and maintenance of locomotives, wagons, and critical sections of track which were necessary to avoid further deterioration and traffic losses during the restructuring and concessioning process;
- (d) Environmental Rehabilitation Component (US\$0.6 million or 0.1% of the total actual cost) - environmental audits of railway facilities and strengthening of RFFSA's environmental management and safety unit;
- (e) Regulatory Reform Component (US\$1.8 million or 0.3% of the total actual cost) - development, monitoring and evaluation of railway regulations , strengthening of the railway regulatory and supervisory agency and establishment of a dispute settlement commission;
- (f) Financial Restructuring and Settlement (US\$14.9 million or 2.4% of the total actual cost) - establishment of a Settlement Division (SD) within RFFSA and contracting of a Real Estate Manager (REM) to manage and sell non-rail assets in order to settle debt and labor liabilities.

Revised components:

With the incorporation of Sao Paulo State Railways into the RFFSA, the scope of components (a), (b), (d) and (f) was expanded. The scope of component (c) was substantially reduced as some planned rehabilitation and maintenance works were actually assumed by the concessionaire. Following additions were made:

- two studies were added to component (a) to assess the economic viability of the North - South Railway under construction with a view to privatizing it;
- technical assistance was included in component (e) for Ministry of Transport (MT) and the Brazilian Enterprise for Transport Planning (GEIPOT) to prepare for broad restructuring of the transport sector administration;
- technical assistance for liquidation of RFFSA was added into component (f).

#### **c. Comments on Project Cost, Financing and Dates**

The final amount of the loan was US\$257.6 million and US\$ 92.4 million was canceled. The project closed on June 30, 2002, eighteen months after the original closing date.

### **3. Achievement of Relevant Objectives:**

The project achieved its overall objective of reducing the cost of freight transport in Brazil's main corridors by restructuring and privatizing the Federal Railways. The RFFSA system was restructured into six vertically-integrated regional operations through consolidation of RFFSA's twelve Regional Superintendencies, and separation of operational and non-operation assets. Following the restructuring, each operation was auctioned for concessioning to prequalified consortiums for 30 years, renewable for another 30 years. As a result of privatization, the cost of freight transport has reduced from an average of USc 2.9 per ton-km in 1996 to USc 1.6 per ton-km in 2001. The appraisal target of USc 2.0 per ton-km for 2000 was met.

The objective to improve railways performance by restructuring and concessioning RFFSA's operations to private operators, and by restructuring its finances to settle debts and labor liabilities was largely achieved. RFFSA output increased by over 50%, from 35 billion ton-km in 1996 to 53.5 billion ton-km in 2002. The appraisal target was reached with two year delay because of the adverse impact of 1998 financial crisis. RFFSA's debts have been rescheduled or settled through revenues from the sale of the concessions and non-rail assets. RFFSA's outstanding debt is now estimated at US\$ 2.0 billion equivalent compared to US\$ 3.7 billion at appraisal. The settlement of RFFSA's labor liabilities was slower than what was expected at appraisal.

The objective of increasing labor productivity through staff retrenchment and emergency rehabilitation of critical assets in order to make the proposed concessions viable, while minimizing the social cost of staff retrenchment was largely achieved.

- Under the project 17,879 employees received separation benefits, of which 56.5% received early retirement incentives, 41.2% received voluntary separation incentives and 2.1% (laid off employees) received involuntary separation grants. Also, about 17,100 received severance benefits from the concessionaire in accordance with the concession contract. To minimize the social cost of staff retrenchment, the project provided retraining and outplacement assistance. These programs were only partially effective.
- Survey of the RFFSA ex-employees showed that in 1999 about 50% were working, 33% had retired and 10% were employed. Regarding incomes, 56% said they were earning less than what they earned at RFFSA while 29% said they were earning more.
- The labor productivity of railways staff has increased from 1.1 million ton-km per employee in 1996 to 4.9 million ton-km per employee in 2002, well above the appraisal target of 2.3 million ton-km per employee.

The objective to enhance competition through regulatory reform, with a view to increase the railways market share and reduce freight transport rates was partially achieved. The regulatory agency for land transport (ANTT) was established in 2001. However, regulatory capacity is still very weak. Few of the specific regulations that were developed were implemented. Railway competitiveness, particularly in the long-distance freight market is still affected by connectivity issues and inadequate regulation for joint traffic.

### **4. Significant Outcomes/Impacts:**

- (i) Railways performance has substantially improved as a result of restructuring and privatization.
- (ii) The project resulted in improving the financial situation of railways. The revenue from concessions and leases has largely eliminated the huge operational deficit of railways. After concessioning most of the operators are recovering their operating expenses from revenues.
- (iii) The project supported creation of the National Association of Rail Carriers (ANTF). ANTF is playing an important role in disseminating appropriate norms and standards and promoting training activities and public-private partnerships.

(iv) The capacity of RFFSA to manage labor-related issues was strengthened. RFFSA established a management system (SISJUR) to manage the smaller labor-related actions.

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

- The capacity of ANTT to enforce regulations, supervise concession contracts and monitor industry performance is still weak. Also, important regulations including interchange or joint traffic, captive shipper rates, and line abandonment rules need to be improved.
- Significant delays in contracting and initiation of some retraining and outplacement assistance courses resulted in lower participation by ex-employees and ineffective training.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	High	Substantial	The Institutional Development Impact is rated "Substantial" instead of "High" because the capacity of ANTT to enforce regulations, supervise concession contracts and monitor industry performance is still weak.
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	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:**

- (i) It is important to establish a regulatory framework prior to the initiation of the privatization program so that clear rules are established for efficient and equitable operation by the private sector, the regulatory agency and the government.
- (ii) There is a need for public-private partnership especially in corridors where investment needs are beyond the financial capacity of the concessionaires.
- (iii) To minimize social cost of staff retrenchment, there should be a clear focus on the training and outplacement assistance of the ex-employees and the training courses should be delivered in a timely manner.

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

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

The quality of ICR is satisfactory. It covers all the relevant and important issues relating to the implementation experience and the outcome of the project.