

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 49935

Project Name	RAILWAYS RESTRUCTURING PROJECT
Region	EUROPE AND CENTRAL ASIA
Sector	Railways (100%)
Project ID	P077328
Borrower(s)	REPUBLIC OF TURKEY
Implementing Agency	Undersecretariat of Treasury Inonu Bulvari – 06510 Emek-ANKARA Tel: (+90) 312 213 02 97 – Fax: (+90) 312 212 85 50
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD (Not Applicable)
Date PID Prepared	August 7, 2009 (Update)
Date of Appraisal Authorization	March 25, 2005
Estimated Date of Board Approval	June 9, 2005

This Project Information Document is an updated version, reflecting the restructuring of the project, which was approved in July 2009. The restructuring revised the development objective of the project (APL-1) to focus the activities on the reforms and achievements that can be realized within Turkey's current legal framework for railways, pending passage of a new railway framework and Turkish State Railways (TCDD) laws. The broader development objectives of the longer term APL program remain unchanged.

1. Key development issues and rationale for Bank involvement

The **Turkey Country Assistance Strategy** (discussed by the Board of Directors of the World Bank on November 6, 2003) recognizes that raising the efficiency of Turkey's transport sector will contribute to economic growth, environmental sustainability and poverty alleviation. Key priorities for the medium term include *inter-alia*: (i) continuing the restructuring and privatization of public utilities coupled with sector reform; and (ii) implementing the reform process inherent in the EU "*acquis communautaires*".

TCDD, the Turkish State Railways operates the national railway, and manufactures and repairs locomotives, wagons, passenger coaches, as well as sleepers and switches. Created as a result of the nationalization of the railways in 1924, TCDD was set up as a State Economic Enterprise (SEE) in 1953. As a State owned enterprise, TCDD has the monopoly of any railways related activities. Yet, it is currently the largest money loser among Turkey's public sector enterprises: in 2008, TCDD lost ~US\$700 million.

In 2008, total support from public finance to cover losses as well as capital investment exceeded US\$2.6 billion. The railway's operating revenue does not cover the cost of its staff. The staff totals about 27,000. The railway traffic market share has been steadily decreasing since the 1950's to become marginal, reaching in 2008, only 2 percent of passenger-km and 5 percent of surface freight ton-km. The decline in traffic share is the result of the rapid growth of road transport in the past decades, while the railway's traffic grew at a slower pace of about 2 percent per year.

The Turkish Government has decided to restructure its transport system and particularly the role of the railway and its economic value. Despite the shrinking share of the rail market, it would not be either

politically acceptable or economically sound to consider the closing of the railways as some social and economic needs cannot be fulfilled by other transport modes, e.g., dry and liquid bulk, containerized traffic and urban transport services in already highly congested cities. The railway reform strategy of the Government is detailed in its Letter of Sector Development Strategy (LSDP) signed by the Minister of Transport in December 2004.

The Government has requested the assistance of the Bank in both roles as an independent advisor and as a financier. With its experiences all around the world in restructuring railway national companies, the Bank is certainly in a unique position to provide appropriate advice and to work in close cooperation with the EU to help TCDD to reduce its financial losses and in meeting the EU accession requirements. Financing would be required to support consultancy services, staff retrenchment, and some financially sound rehabilitation of infrastructure and operating assets. As a result of the policy dialogue between the Government, TCDD and the Bank, which has taken place since 2001, in particular through ESW (TCDD – Options for reform – June 2002), there is now a reciprocal trust in the success of the project.

2. Proposed objective(s)

The overall objective of the project is to improve the financial viability, productivity, and effectiveness of railways operations. Because some of the reforms can be implemented only after the enactment of the future Railway and TCDD Laws, the Bank's investment lending support for the proposed Government's railway restructuring program will be implemented through a two-phased Adaptable Program Loan (APL).

The Project Development Objective for the APL-1 is to (a) improve the effectiveness of railway operations on the Mersin-Toprakkale and Yenice-Bogazköprü lines by increasing capacity and improving service quality; and (b) lay the groundwork for restructuring TCDD by developing experience with financially viable contract arrangements for loss making public services and access pricing of infrastructure.

The enactment of the future Railway and TCDD Laws (which is the main trigger for APL2), will create the legal framework needed to implement broader reform. The second phase (APL2) will build on the institutional developments achieved under APL1 and on the first steps of TCDD restructuring, and will consolidate and provide sustainability for the restructuring project.

3. Project description

Project cost and components

The APL1 total cost is estimated at ₺194.9 million, of which the World Bank finances ₺43.7 million. It includes the following components: (i) rehabilitation/modernization of infrastructure and operating assets to increase the capacity of the most active links within the Turkish railway core network; (ii) gradual but significant TCDD staff adjustment and social mitigation plan designed under a socially acceptable program; (iii) transaction assistance and other advisory services to the Ministry of Transport and the TCDD to carry out well targeted key activities detailed below; (iv) staff training and re-training; and, (v) TCDD public communication improvement.

Component A: Freight Capacity Increase: Implementation of a signaling telecommunication and improvement of infrastructure program along Mersin – Toprakkale, Yenice – Bogazkopru line sections, including complementary works for the extension of 750 m. of the loops within crossing stations, mechanical installation of optic fiber along the lines for improved communication, and establishment of a computerized traffic center.

Component B: Staff adjustment and social plan: Support to implementation of restructuring process of the TCDD through the provision of: (a) Severance Payments to eligible workers of the TCDD under terms and criteria set forth in the Operational Manual; and (b) technical assistance including training and re-training for delivery of redeployment services to eligible TCDD workers.

Component C: Advisory services to the MoTC and TCDD: Support for the completion of the institutional framework and the restructuring of TCDD, including: (a) implementation of the TCDD's restructuring process; (b) detailed engineering and work monitoring; (c) strategic marketing for freight businesses; and (d) development of targeted freight services through provision of technical assistance.

Component D: TCDD Staff Training and Re-training: Carrying out of a program for the implementation of the TCDD's training program for: (a) railway procedures review and design; (b) operational performance monitoring; (c) improved communication and negotiation skills; (d) labor regulation on safety and health; and (e) development of governance and business skills through provision of technical assistance and training.

Component E: TCDD Public Communication and Periodic Surveys: Support the development of an efficient communication strategy for the TCDD to improve railways public image, including conducting periodic customer surveys through provision of technical assistance.

Safeguard policies that might apply

Environment: The project is in full compliance with all environmental regulations, policies and procedures of the Government of Turkey and the World Bank. In accordance with World Bank safeguard policies, the project is rated environmental category B and an Environmental Management Plan (EMP) acceptable to the Bank has been prepared by TCDD. The Borrower has conducted public consultations, and disclosed the Turkish language EMP publicly in Turkey at the TCDD Regional Offices at the end of February, 2005. The English language version of the EMP was received by the Bank on February 23, 2005 and was placed in the Infoshop on March 2, 2005. The English language version of the EMP is also included in the project files.

The project is expected to have minor negative impacts on the environment. Only the implementation of the signaling program (component A of the project) can trigger environmental issues. Inevitably, the digging of trenches for electrical cable and erection of poles will introduce noise, disturb the ecosystem near railway tracks and may disturb the public at intersections of roads and railroad, due to the movement of men, equipment and materials. These slight negative impacts will be limited to the construction phase. Once the project is completed, the improved traffic flow may increase air and noise pollution along the railroad. However, the reallocation of traffic from road to rail will result in reduction of congestion, and higher reduction of pollution caused by hydrocarbons, particulates and lead. The net result will be a diminution of pollution caused by traffic. No resettlement or land acquisition is involved.

The World Bank policy on cultural heritage will not be triggered, as all the works will be implemented in a zone that has already been explored during the construction of the railroad. However, the Environmental Management Plan includes a requirement that all construction contracts contain a provision regarding handling of unexpected findings of items of cultural significance in accordance with Turkish regulations on cultural property.

Poverty Alleviation and Social: Given the nature of the interventions supported by the project, the project does not trigger any social safeguard policies.

4. Financing

Source:	(<i>m.</i>)
BORROWER	51.2
IBRD	143.7
Total	194.9

5. Contact point

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