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| 1. Project Data: | | Date Posted : 06/26/2002 | |
| PROJ ID: P008494 | | Appraisal | Actual |
| Project Name: Budapest Urban Transport | Project Costs (US\$M) | 67.1 | 67.1 |
| Country: Hungary | Loan/Credit (US\$M) | 38 | 38 |
| Sector(s): Board: TR - General transportation sector (100%) | Cofinancing (US\$M) | | |
| L/C Number: L3903 | | | |
| | Board Approval (FY) | | 95 |
| Partners involved : | Closing Date | 06/30/2000 | 06/30/2001 |
| Prepared by : | Reviewed by : | Group Manager : | Group: |
| Binyam Reja | Laurie Effron | Alain A. Barbu | OEDST |
| 2. Project Objectives and Components | | | |
| a. Objectives | | | |
| <p>The overall objective of the Project was to support urban transport reforms undertaken by the City of Budapest and Budapest Transport Company (BKV). The specific objectives of the Project were to: (i) modernize and increase the commercial orientation of BKV; (ii) establish a formal contractual relationship between BKV and the City of Budapest; (iii) decrease subsidies to BKV by reducing operating costs, increasing tariffs and separating noncore activities, and by introducing the private provision of public transport services; (iv) contribute to the improvement of air quality in Budapest; and (v) implement a parking control policy.</p> | | | |
| b. Components | | | |
| <p>To achieve the above objectives, the project comprised three specific investment components and one technical assistance and training component, including (a) Bus Fleet Replacement -- Procurement of 50 standardized buses to replace all buses over twelve years; (b) Tram Track Renewal -- Replacement of 47 kilometers of track on heavily traveled routes and in most need of repair; (c) Automatic Vehicle Monitoring System -- Expansion of the automatic vehicle monitoring system started under the Bank's Hungary Second Transport Project, consisting of on board communication equipment for 220 buses, street-side presence sensing, radio system modifications, computer hardware and software; and (d) technical assistance and training .</p> <p>Revised components:</p> <p>There was a formal revision whereby the technical assistance and training component was expanded, at BKV's request, to include the preparation of projects aimed at increasing the street priority to public transport vehicles; the preparation of a 5 year investment plan for BKV, and technical assistance with the subcontracting, concessioning and other forms of private sector involvement.</p> <p>Under the Tram Track Renewal, the computer controlled maintenance supervision was dropped, due to track maintenance being moved to a subsidiary company, in preparation for divestiture .</p> | | | |
| c. Comments on Project Cost, Financing and Dates | | | |
| <p>The project was fully disbursed -and closed on June 30, 2001, one year behind schedule.</p> | | | |
| 3. Achievement of Relevant Objectives: | | | |
| <p>The project achieved its overall objective to promote transport reforms undertaken by the City of Budapest and BKV . The ICR provides a detailed discussion on the achievement of project objectives, and the main highlights are listed below.</p> <ul style="list-style-type: none"> • BKV's internal organization was restructured and streamlined; several depots were combined and two were closed; profit-making activities and non-core services were either divested or sold off . • BKV was transformed from a state-owned company to a joint stock company on January 1, 1996, managed by a Board of Directors, but fully owned by the Municipality of Budapest (MoB). • A formal contractual relationship between MoB and BKV was established, and renegotiated annually . • Sub-contracting transport services with the private sector were introduced . • Subsidies were decreased and cost recovery improved but only nominally . State and MoB subsidies were reduced from 62% (1994) to 42% (2000) of BKV operating expenditures but this was not accompanied by a | | | |

commensurate increase in tariffs . While there were substantial gains through improved productivity, cost recovery targets were achieved at the expense of deferred and inadequate maintenance .

- Air quality was likely to have been improved due to the replacement by the 50 new "clean" buses, and the parking controls restraining traffic into the city center .
- Parking program for Central Budapest was successfully introduced .

4. Significant Outcomes/Impacts:

The significant outcome of the Project are the reforms undertaken to improve the urban transport system in Budapest, which has resulted in improving the quality of passengers services; making BKV a more cost -efficient organization; and improving the relationship between BKV and MoB . Management consultants retained by BKV to further assist in improving productivity and reducing operating costs .

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

- Weak financial situation of BKV - cost recovery and operating ratio adversely affected due to inability to raise fares because of State imposed ceilings of 6% (inflation is 8.5%-10%) for fare increases
- Although improved air quality was a project objective, there were no indicators nor targets specified, nor was there any baseline conducted and pollution levels measured in the course of the project .

| 6. Ratings: | ICR | OED Review | Reason for Disagreement /Comments |
|-----------------------------|--------------|--------------|-----------------------------------|
| Outcome : | Satisfactory | Satisfactory | |
| Institutional Dev .: | Substantial | Substantial | |
| Sustainability : | Likely | Likely | |
| Bank Performance : | Satisfactory | Satisfactory | |
| Borrower Perf .: | Satisfactory | Satisfactory | |
| Quality of ICR : | | Exemplary | |

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

7. Lessons of Broad Applicability:

The ICR identifies several lessons, the following are repeated here :

- The Bank may work with a publicly-owned enterprises to improve their performance, or to assist in their move toward the private sector or liquidation .
- Focussing on basic project implementation procedures and issues is important for the borrower .
- Undated legal covenants can, under the right circumstances of strong commitment by the Borrower, provide a more amicable and adaptable working environment between the client and the Bank .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

Quality of ICR is exemplary. It was thorough, showed balanced approach to the evaluation, gave thoughtful comments across the range of topics covered, and arguments were backed up with data and evidence . However ICR critique on the size of the reform agenda being too large is debatable .