

| 1. Project Data: | | Date Posted : 10/15/2009 | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------------|---------------|
| PROJ ID : P100330 | | Appraisal | Actual |
| Project Name : Railway Reform Programmatic Development Policy Credit | Project Costs (US\$M): | 40.0 | 40.0 |
| Country: Bangladesh | Loan/Credit (US\$M): | 40.0 | 40.0 |
| Sector Board : TR | Cofinancing (US\$M): | | |
| Sector(s): Railways (100%) | | | |
| Theme(s): Corporate governance (50% - P) Infrastructure services for private sector development (25% - S) Other public sector governance (25% - S) | | | |
| L/C Number: C4235 | | | |
| | Board Approval Date : | | 10/19/2006 |
| Partners involved : ADB, JBIC, DFID | Closing Date : | 01/31/2008 | 02/24/2008 |
| Evaluator : | Panel Reviewer : | Group Manager : | Group: |
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2. Project Objectives and Components:

a. Objectives:

In the Bangladesh Poverty Reduction Strategy Paper (PRSP) the Government of Bangladesh (GOB) has given a high priority to the transport sector, while in its National Land Transport Policy (NLTP) nine program objectives for the rail sector are detailed to be achieved in partnership with the Asian Development Bank (ADB) and the Japan Bank for International Cooperation (JBIC) through two consecutive Development Policy Credit (DPC) budgetary support operations. The Bangladesh Railway Reform Programmatic DPC has a Program Development Objective (PDO) "to improve the governance structure within which the Bangladesh Railway (BR) operates, addressing both the governance relationship between the GOB and the BR on the one hand, and corporate governance and management structure within the railways organization on the other ." [Program Document (PD) p.1]. The PD elaborated that the implementation of the reform program would :

1. Clarify the relationship between GOB and BR and increase BR's autonomy and accountability;
2. Improve corporate governance and management structure within BR so that BR is more commercially and market oriented; and
3. Create an environment conducive to investment in railway operations .

The reform program had five policy areas or sub objectives which were :

- (a) restructuring BR by line of business organization;
- (b) transforming BR into a corporate entity;
- (c) improving cost accounting and financial reporting;
- (d) improving human resource planning and incentives; and
- (e) improving operating and maintenance performance .

The second phase of the DPC was a continuation of this program and thus had the same PDO, but in the event a second phase did not take place and thus the ICR reviewed here was prepared after the closure of the first phase . For the purpose of project evaluation the PDO objective is evaluated in conjunction with the five sub -objectives. There is, however, to some extent a lack of clarity in the ICR concerning the PDO, and its absence in the Development Credit Agreement (DCA) is a lapse of quality control in the project review process .

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The following four conditions, defined as the Program in the DCA . were to be met before project effectiveness . They are worded slightly differently in the PD and the DCA. In the DCA, the Program requires that the GOB has :

1. Adopted, through a governmental decision, the lines of business structure, in form and substance acceptable to the Association;
2. Appointed all the heads of the lines of business, with the terms of reference acceptable to the Association;
3. Assigned all key staff to each line of business (LOB), with terms of reference acceptable to the Association; and
4. The Ministry of Finance has formally endorsed the Ministry of Communication 's request to an increase in BR 's maintenance funding requirement in line with BR 's three-year maintenance rolling plan.

The PD wording for the third condition is: "Assignment of key staff to support LOB heads and work with the reform consultant in implementing the LOB structure". This wording is also used in the ICR .

The Credit was budget support to the Government without Borrower contribution; however the Borrower was to increase BR's maintenance funding as required by the fourth DPC condition . This condition was met. There is a degree of disconnect between the conditions for the LOBs in the DCA and the PD . Conditions for the DPC required that the GOB had adopted the LOB structure and its key persons before effectiveness. However, according to the PD the Borrower was to "work with the reform consultant in implementing the LOB structure " with the World Bank having the right to review and comment on the consultant's work .

The intention was for the first DPC to be followed by commencement of the preparation of a railway investment project in FY08, and the second DPC in FY09, after the milestones for it were met.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The first phase credit amount was disbursed in a single tranche one month after Effectiveness . The Credit was signed four months after Board approval and became effective in March 2007. The delays were due to the fluid political situation. Board approval took place before the "Caretaker" government was to organize new elections, which had normally taken two to three months in Bangladesh . The Bank credit was closed as scheduled in January 2008.

There were three other donors to the BR's reform program : ADB, US\$400 million of which US\$100 million was released, subsequent tranches were only to have been released if the second DPC triggers were met; JBIC, US\$ 100 million investment loan, disbursed if the reform actions were met; and the British Department for International Development (DFID), which funded the development of the Railway Master Plan .

3. Relevance of Objectives & Design:

The project was the Bank's first credit to BR in thirty years . Bank's management considered it to be its Flagship project in Bangladesh. It was an explicit part of the Country Assistance Strategy (CAS); it had high level GOB support; and, importantly, the three major donors to BR, listed above joined the International Development Association (IDA) in signing a Memorandum of Understanding (MOU). This MOU tied these entities' support to BR through a policy matrix aiming at comprehensive reform of the BR . The policy matrix remains substantially relevant .

Given the long and unsuccessful history of reforms at BR, the agreement on the policy matrix, supported by the donors through the MOU, the endorsement of the MOU by the GOB, the CAS and the Bank's transport sector strategy paper were important features in the project design . The unequivocal commitment of the GOB to the reforms was also crucial, but the political risks were underestimated . The unanticipated factor was the long tenure of the "caretaker" government, which allowed the reform opponents to mobilize, and after the change in government following the elections, there was much less support for the reform program .

The Monitoring and Evaluation (M&E) system was not implemented in a timely way in support of the key performance

Indicators of the project, because the relevant data were not available during the project . The Bank also lacked direct contact with the reform consultants, and therefore the implementation of the policy matrix and monitoring the objectives of the project could not be satisfactorily followed .

4. Achievement of Objectives (Efficacy):

Because of ongoing political disagreements, the "caretaker" government remained in power for two years . During this period the political will for the reforms waned . The ADB funded LOB consultant was mobilized only in October 2007, one year after Board approval and just three months before the first DPC's scheduled closing date . Some steps that were supposed to have been met before Effectiveness, in practice were not . Achievement of the overall objective (to improve the governance structure within which the BR operates, addressing both the governance relationship between the GOB and the BR on the one hand, and corporate governance and management structure within the railways organization on the other) was *negligible*. This was based on an overall assessment taking into account the achievements of the five individual sub-objectives below:

- a) Restructuring BR by line of business (LOB) organization. This action was agreed at the Negotiations, but it has met resistance at BR and the final definition of the LOBs has not been agreed upon . The trigger for the second DPC phase was the development of a 5-year business plan with financial targets and key performance indicators (KPI) for each LOB. The report on the LOB and the business plan by the consultant is being reviewed by the parties, but disagreement over the LOB organization, staffing and the business plan remains . The Achievement of the sub-objective was *Modest*.
- (b) Transforming BR into a corporate entity. This sub-objective, and also a trigger for the second phase, has met resistance both at BR and GOB. According to the ICR, a modest increase in BR autonomy has been achieved. However, it is unlikely that BR will be corporatized . The achievement of this objective is *Negligible*.
- (c) Improving cost accounting and financial reporting. A consultant has prepared the architecture for cost accounting and financial management, which has been approved by BR, but not yet by the donors . Its approval is contingent on the approval of the LOB . The achievement of the sub-objective, also a trigger for the second phase, was *Modest*.
- (d) Improving human resource (HR) planning and incentives. The Consultant is assisting BR to set up the HR data base. As a trigger for the second phase, the BR personnel requirements were to be identified , including competencies and training requirements to ensure functioning of the LOBs . Because the work is still in progress, there is insufficient information to evaluate this objective . At completion the achievement of the objective was *Negligible*.
- (e) Improving operating and maintenance performance. The increase in maintenance, which was a condition of the DPC, was carried out as agreed and planned . The trigger for the second phase was a data collection and monitoring system and for the KPIs for each LOB . The monitoring system is being developed, although the KPIs for the LOBs have not yet been approved . Achievement was *Negligible*.

It is pertinent to mention that the performance indicators for BR operations, listed in Section 10, were to be achieved after completion of the second phase of the DPC . Based on most recent information, some of the indicators have been achieved or have improved (passenger-km, asset utilization, labor productivity), while others have worsened (operating revenue, working ratio, ton-km, no user satisfaction survey).

5. Efficiency (not applicable to DPLs):

NA

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

| | Rate Available? | Point Value | Coverage/Scope* |
|--------------|-----------------|-------------|-----------------|
| Appraisal | No | | |
| ICR estimate | No | | |

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Progress toward the achievement of the first phase of the DPC program was on balance negligible . There was modest progress in achieving the specific sub-objectives for reorganizing the BR by LOB and improving cost accounting, but. For improving governance and management of BR -- corporatizing the BR, improving operating performance and HR planning achievement was negligible . None of the milestones for the second phase of the DPC were met. The outcome is rated Unsatisfactory .

a. Outcome Rating : Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

Even though there was some small movement toward the objectives defined in the Policy Matrix, given the BR history of backsliding in policy reforms and management and labor resistance to restructuring the BR, the progress made is subject to reversal and the risk to desired development outcome is high .

a. Risk to Development Outcome Rating : High

8. Assessment of Bank Performance:

The PD has a thorough discussion of the history of railway reforms in Bangladesh and a thoughtful case is made about what needs to be done. The Bank successfully negotiated, during preparation, a well -conceived Policy Matrix and the MOU that defines the cooperative responsibilities of the donors . The Bank also ensured that, although the first phase of the DPC consisted of budget support, it had the right to review and comment on all the consultant outputs. There was high level support by all parties to the project concept and its design . Bank performance during preparation was satisfactory . A blemish in project preparation is the lack of clarity about the PDO and its absence from the DCA.

Implementation was affected by numerous factors not under project team control : "caretaker" government; INT examination of other projects in Bangladesh; inability to carry out scheduled supervision missions; delays in consultant appointments and their outputs; change in Country Director; and resistance to reforms by the Borrower. All these concurrently occurring events distracted the Bank management from giving sufficient support to supervision, although the Bank did ensure that all donors respected the MOU responsibilities about the Policy Matrix and carried out joint supervision missions with the cooperating donors whenever possible . The project team made a valiant effort, but the difficulties were insurmountable .

a. Ensuring Quality -at-Entry:Satisfactory

b. Quality of Supervision :Moderately Satisfactory

c. Overall Bank Performance :Moderately Satisfactory

9. Assessment of Borrower Performance:

The Borrower, especially the Ministry of Finance, was very supportive of the Policy Matrix and the Bank 's entry to the railway sector in Bangladesh. It signed and elaborated on the MOU. Shortly thereafter, the "caretaker" government, which was in place for most of the implementation period, did not have the same enthusiasm for the project and the railway reform. The workshops did not create motivation for the project within the railway, labor or management. Instead, during implementation, there was slowness in procuring the consultants, missions were occasionally canceled, and the high level commitment required for policy development and reform was not available.

The implementing entity supported the Social Impact Analysis, held consultative workshops and planned the new LOB structure. However, labor and management resistance prevailed and the high level support for the reforms was missing.

a. Government Performance :Moderately Unsatisfactory

b. Implementing Agency Performance :Moderately Satisfactory

c. Overall Borrower Performance :Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization:

The DPC Program (over two phases) had seven performance indicators: (1) 10% increase in passenger and freight traffic; (2) 3-5-% increase in container freight traffic; (3) 50% increase in labor productivity; (4) 25% increase in asset utilization; (5) 10% increase in operating revenue; (6) Working ratio reduced from 127% to 100%; (7) Overall improved user satisfaction of the railway services .

The M&E design was geared to provide the necessary information at the completion of the first and second DPCs, while the indicators' target year was 2011. The indicators are outcome oriented and valid and useful . They attempt

to show what governance and organization restructuring could achieve . However, the indicators are not tied directly to the PDO. The desired outcomes of the Program, discussed in the PD, and the triggers of the second DPC could have been useful as intermediate indicators .

The implementation of the M&E system was not timely for the key performance indicators of the project . Although BR has an extensive statistical year -book, these data were not available during the project . The Bank also lacked direct contact with the reform consultants, in spite of the concurrent supervision missions, and therefore the implementation of the Policy Matrix could not be satisfactorily monitored --even if the Policy matrix indicators were not explicitly part of the M&E design .

In absence of timely data, delayed consultancies, and reserved implementing entity, the M&E was of marginal help to be utilized in guiding project implementation, although the data and the M&E, once available, would be useful in the operational phase of the project. Taken together, the M&E system of the project was modest .

a. M&E Quality Rating : Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The Credit was disbursed as a single tranche budget support . Hence there were no financial management or procurement issues. The potential social protection issues were addressed in several workshops held during project preparation. They were supported by Social Impact Analysis and consultative workshops during implementation . The intention of the consultations was to deal with labor resistance to reform and project the benefits of BR modernization. While these were positive steps, they should have been continued in order for the policy reforms to be acceptable to labor, management, and the politicians . There were no unintended impacts

| 12. Ratings: | ICR | IEG Review | Reason for Disagreement /Comments |
|-------------------------------------|---------------------------|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Outcome: | Moderately Unsatisfactory | Unsatisfactory | None of the milestones for the second phase of the DPC was met. Progress toward the achievement of the Program objectives was negligible. |
| Risk to Development Outcome: | High | High | |
| Bank Performance : | Satisfactory | Moderately Satisfactory | The supervision team was unable to overcome the escalating problems . |
| Borrower Performance : | Moderately Satisfactory | Moderately Unsatisfactory | The Borrower did not follow up on its commitments. Partly this was due to the change in Government and partly due to delays in commencing the project. |
| Quality of ICR : | | Satisfactory | |

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

The project was one of the first transport sector DPC projects in the Bank and the modalities for the DPC /DPLs were not well-established. DPC/DPLs is a complex instrument. The Bangladesh DPC project experience suggests three lessons, which may be context specific .

1. DPC/DPL projects should have a clear statement of the PDO and identify supervision components that relate to it. Because of the inherent complexity and uncertainty surrounding the acceptance, adoption and implementation of policy proposals, the time line of the project should allow for flexibility . This uncertainty and flexibility in project implementation requires that there are intermediate output or outcome indicators to guide the project's supervision .

2. The PD should include a cost table for the supervision requirements of the components . The supervision plan should also indicate the kind and level of management involvement . This is necessary because without high level

management involvement DPC/DPL policy projects may falter, especially if there are political changes .

3. The DPC/DPL projects can (in fact, are likely to) be supervision intensive. Therefore, the supervision budget for the DPC/DPL instrument may need to be higher than results from using the customary coefficients . For this project supervision costs were only 58 percent of the project preparation costs (excluding the sector strategy paper). This ratio was too low. For DPC/DPL the supervision costs should be indicated in the PD to reflect the difficulty of the project and to indicate the Bank's commitment for delivering desired development policies .

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR is satisfactory, but only marginally so . It does not clearly explain at an early stage the context of the project and the ICR. The lack of clarity of the objectives of the project, the relationship of the performance indicators to the objectives and, given the results of the project, the supervision efforts to achieve the milestones of the second DPC would all have merited a more thorough and contextual discussion . The evidence is not fully consistent with analysis results. Also an important omission is the key content, rather than only a footnote, of the proposed LOB structure, which is central to BR restructuring, and over which significant disagreements remain .

a.Quality of ICR Rating : Satisfactory