ICR Review

Operations Evaluation Department

Report Number : ICRR11637

1. Project Data:		Date Posted : 09/03/2003		
PROJ ID :	P002757		Appraisal	Actual
Project Name :	Railways Restructuri	Project Costs (US$M)	275.2	222.1
Country :	Tanzania	Loan/Credit (US$M)	76	64.6
Sector(s):	Board: TR - Railways (88%), Roads and highways (12%)	Cofinancing (US$M)	89.6	45.2
L/C Number :	C2267			
		Board Approval (FY)		91
Partners involved :	African Development Bank (AfDB); CIDA; the European Development Fund (EDF); KfW; ODA (UK); World Food Program (WFP).	Closing Date	12/31/1999	12/31/2002

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2. Project Objectives and Components

a. Objectives

The objectives of the project were to:

(i) strengthen the organization of the Tanzania Railways Corporation (TRC), eliminate regulatory bottlenecks to its effective operation and set it on the path to a commercially viable entity; and

(ii) rehabilitate infrastructure assets, replace obsolete and uneconomic operational assets and provide limited new investments consistent with the prospects for growth in domestic traffic.

b. Components

The project consisted of two main components -

A. Physical Investments Component

- relaying of about 200 km of track and rehabilitation of 800 km of track;
- rehabilitation and strengthening of 22 bridges;
- establishment of one stone quarry for ballast;
- procurement of equipment for track maintenance;
- construction and equipping of a central plant maintenance and a permanent way workshop;
- procurement of accident relief equipment;
- procurement of about 40 trolleys and service vehicles;
- renewal of the Tanga and Link line overhead communications wires and provision of equipment and spare parts for the TRC telecommunications system;
- rehabilitation of about 1,750 wagons;
- rehabilitation of 100 coaches and procurement of 27 new passenger coaches.
- rehabilitation of 31 locomotives; and
- upgrading of mechanical engineering workshops.

B. Organizational Development and Operational Support Component included improvement of TRC's:

- operations through the implementation of efficient methods of planning and control;
- financial management and accounting practices, and management and operations information systems; and
- working condition of the employees through a revised salary and wage structure and a productivity-based incentive scheme.

The credit agreement was revised twice: first in February 1998 to include emergency flood repairs after the El Nino; and in February 1999 to support concessioning of TRC. Concessioning assistance was added as the Government of Tanzania in October 1997 decided to concession TRC to meet the commercial and operational objectives.

c. Comments on Project Cost, Financing and Dates

At appraisal the credit was US$76 million. At project closing US$64.6 million was disbursed and US$11.3 million was cancelled. SDR 8.1 million was cancelled at the time of the restructuring of the project. The project closed on December 31, 2002, three years after its original closing date.

3. Achievement of Relevant Objectives:

1. While some progress was made towards increasing the freight transported by TRC, staff productivity, and locomotive and wagon availability, the project failed to achieve its objectives of developing a commercially and financially viable railways.
2. The freight traffic of 1.60 million-tons in 2002 is still below the Mid Term Review target of 1.83 million-tons by 2000. However, overall performance trend in the past 5 years showed a steady improvement in freight traffic and TRC carried record levels of freight traffic in both 2001 and 2002.
3. Physical investments were fully accomplished. Relaying of 200 km track, rehabilitation of 1,000 km track, and thermit welding of 560 km rail was completed.The initial rehabilitation and strengthening of 22 bridges was increased to 52 bridges as part of El Nino emergency works and was completed by December 2001.
4. About 2,400 wagons were overhauled by 1996 and 67 new tank wagons were procured. Fifteen mainline locomotives and 11 shunting locomotives were overhauled by 2000. However, most of the mainline fleet is 25 plus years and reliability remains a major problem.
5. The concessioning of TRC, despite all well intended efforts and good progress in transaction preparation, was not achieved. A number of supporting studies on asset valuation, pension liabilities, environmental and social liabilities, etc. were carried out to facilitate concessioning of the railways. A public awareness campaign of the need for railway concessioning was also conducted. The concession bidding documents were issued in September, 2002. However, there was limited interest from the private sector.

4. Significant Outcomes/Impacts:

- The GOT is committed to the concessioning of the railways. As a first step, a new Railways Act, providing the legal basis for the new railway structure, was enacted. The SUMATRA Act, establishing an economic and safety regulator for surface transport, was also enacted. GOT is currently seeking new transaction advisors to assist with the preparation of revised bidding documents.
- Staff employed by TRC was reduced by 35.5% (from 13,790 in 1991 to 8,892 in 2001) to reduce overstaffing. A 360 degree performance evaluation system was introduced.
- A computerized financial accounting system was introduced to improve financial reporting and accounting.
- Railtracker, a wagon/freighter tracking system was introduced. It has become the primary tool for improving wagon allocation management and utilization.
- The project resulted in greater management autonomy, a more commercial approach and a more customer oriented focus.

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

- GOT failed to implement the financial provisions of either the Memorandum of Understanding (MOU) or the subsequent Performance Contract (which included provision for equal treatment of the road and rail sectors). This contributed significantly to TRC's financial problems and its inability to get on the path to financial sustainability.
- Concessioning was slow because of long decision making processes. The Cabinet decision on the preferred concessioning option took over 12 months. Also, inadequacy and poor performance of transactions adviser was one of the contributing factors in the failure to concession TRC and in the delays during the concessioning process.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Unlikely	Unlikely	

Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Unsatisfactory	TRC performed well during implementation. However, the government failed to implement the financial provisions of either the Memorandum of Understanding or the subsequent Performance Contract. This contributed significantly to TRC's financial problems and its inability to get on the path to financial sustainability. Overall Borrower Performance is rated "Unsatisfactory".
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:

- There are limits to improving the performance of railways within the parastatal framework. Unless the basic incentive structures are changed, Technical Assistance and training will have little sustained impact on operational performance. Successful concessioning in Latin America and African countries has shown that privatization of railways can substantially improve the performance of railways.
- Lack of private sector interest may partly be the result of conservative criteria which require an experienced railway operator to have a substantial equity participation and partly due to political risk aversion. However, more interest may be generated by using more flexible criteria which would allow other interests to bid for the concession, on the basis of a long-term management contract with an approved rail operator.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The quality of the ICR is satisfactory. It is comprehensive and provides performance indicators on freight traffic, wagon availability, and staff productivity, which permits a ready evaluation of the project.