

Rehabilitation and modernisation of a railway network

Summary of the Operation Performance Evaluation Review

November 2005

THE PROJECT

The railway forms a key link between the landlocked countries of Central Asia and the West. Freight traffic, however, substantially declined after the break-up of the former Soviet Union and a number of regional military conflicts. Lack of funds in the 1990s, combined with destruction and theft during local hostilities, saw a serious deterioration in the rail tracks and other railway assets. This resulted in low train operating speed and capacity restraints. As traffic recovered, there were increasing concerns about the safety of railway operations. Moreover, the tank wagon washing plant was inefficient and environmentally unsound.

PROJECT RATIONALE

Reminiscent of the central command economy era, the railways continue to be the backbone of the country's transport sector. This project aimed to effectively promote trade facilitation and market expansion. Other transition impacts rested on commercialisation and market efficiency, as well as on improved financial and environmental performance.

ACHIEVEMENT OF OBJECTIVES

On balance, the achievement of objectives was rated *Good*. According to the Bank's appraisal report, the Project aimed to (i) enhance the physical and economic viability of the railway route; (ii) improve the efficiency and environmental management of the oil tanker wagon fleet; and (iii) support the commercialisation of the railways.

Enhancement of physical and economic viability of the railway route (*fully achieved*)

According to the base scenario, freight volumes were to increase from 11.2 million tonnes in 1997 to 15.1 million tonnes by 2000. It was then expected to increase to 16.5 million tonnes by 2003 and thereafter remain constant. Actual traffic on the rail network has not only been in line with Bank projections, but also exceeded them. Passenger transport, which was not the main focal point under the project, has also exceeded Bank projections. Deferred maintenance and renewal work has been fully achieved. Despite the fact that all of the procurement packages were not procured within the envisaged timeframe, the track rehabilitation works and track renewal (so-called capital repair or "remont") have been implemented successfully.

Improvement of the efficiency and environmental management of the oil tanker fleet (*partly achieved*)

This project component incurred significant implementation problems. By not meeting its original mid-term implementation target, it was in danger of being cancelled from the loan. The failure of the consultant (or more accurately, its assigned personnel) to meet the Bank's and/or client's expectations has strained the relationship between all parties, delayed the preparation and tender phase, and resulted in re-tendering of the sub-component. The consultant's lack of technological experience in the washing of rail tank cars, their inexperience in international open tendering, and their one-sided focus on technical aspects only, required significantly more time to be spent solving pertinent issues than anticipated.

Support of the commercialisation of the railways (*fully achieved*)

As required, the railway company provided satisfactory business plans (including public service obligation calculations) and also achieved compliance with key financial performance benchmarks.

OVERALL ASSESSMENT

The Evaluation Department assigned an overall rating of *Successful*. The achievement of objectives was good. All tasks were fulfilled, albeit at mixed performance levels. The railway company's financial performance is satisfactory, although its dire account receivables situation remains unchanged since appraisal. The project is in compliance with the prevailing country strategy and sector policy.

TRANSITION IMPACT AND THE BANK'S ADDITIONALITY

The project was expected to impact transition in the following areas; commercialisation and market efficiency, trade facilitation and market expansion, and the frameworks for markets, institutions, laws and policies. Overall the transition impact of the project was *Good*. The long-term potential is expected to be *Satisfactory* with a *Medium* risk to transition potential. There is little doubt as regards the Bank's additionality, which was regarded as *Verified in all respects*. It is hardly conceivable, particularly taking into account the TC grant financing involved, that any private sector financier would have offered such financing comparable to a "Libor+1" formula, let alone that a sovereign guarantee would have been made available.

The environmental performance of the project and the sponsor was rated *Satisfactory* from both the short-term and long-term perspective, and the extent of environmental change was rated *Substantial*. Besides the positive environmental effect of commissioning a new washing facility for oil tank wagons that meets European standards, this project component contributes decisively to improved working conditions of the railway company's staff assigned to the cleaning of oil tank wagons.

BANK HANDLING

The appraisal for the investment, the Terms of Reference and the TCs were prepared diligently. In addition, the railway company was appropriately consulted and involved. The Bank's (technical) due diligence work was based on sound expertise. Also, the Bank's due diligence work was in compliance with the required sound banking principles. A number of key loan covenants and conditions prior to effectiveness of the loan have been set, and a clear performance monitoring regime has been established, focussing on performance figures which reflect realism.

MAIN OPER ISSUES AND LESSONS LEARNED

Assessment of a client's implementation capacity is a necessary due diligence element.

A thorough analysis of a client's implementation capacity during appraisal will answer whether a straightforward procurement result-oriented or a more process-oriented approach should be employed. Such analysis will also provide the necessary insight into the nature of consultant assistance required, if any, and help in more accurately estimating implementation schedules. By the same token, this exercise helps in determining the grace period foreseen under a loan.

In cases of TC-recommended “high-tech” solutions, a “second-look” plausibility confirmation may be warranted.

In cases where complex, often capital-intensive “high-tech” project components are considered, irrespective of whether this originated from Bank-funded TCs, the Bank should consider seeking reconfirmation through a “second-look” plausibility study as part of investment due diligence.

The performance of the Project Implementation Unit (PIU) can be improved by instating a Lender’s Monitor Adviser (LMA). Depending on the client institution’s maturity, the inclusion of a foreign expert into the PIU as a Lender’s Monitor Adviser (LMA), could enhance a PIU’s overall performance. The LMA would be paid for, and report directly to, the Bank. Apart from the professional considerations, it would act as a barrier against political and extraneous pressures coming from outside the PIU.

Pertaining to procurement of services, integrity of the process and rigorous application of related rules and regulations are essential project quality ingredients.

Even though valuable time may have already passed in processing a tender endeavour, this passage of time should not prevent the Banking Department from considering re-launching a tender process if and when serious flaws start emerging. Failure to address upstream deficiencies decisively at the earliest signs, often results in protracted and costly remedy actions downstream, and also tends to jeopardise project success overall.

Where consultant responsiveness to Bank-raised performance quality concerns starts becoming inadequate, early contract termination should be seriously considered.

Consultant performance needs close monitoring and early signs of deficiencies need to be met with decisive action. Where timely warnings fail to make an impact, early termination of the contract, penalty payments and the Bank’s experience recorded for future reference, should all be considered.

Formulation and stipulation of loan covenants must be based on implementation realism and the Bank’s preparedness to enforce them.

During project formulation, the potential and implementation realism of covenants (including the supportive leverage mechanisms) must be critically assessed and the key actors (i.e. attribution) must be clearly identified. Consequently, Bank monitoring and support must be planned for and budgeted commensurately, and covenant compliance must be followed-up with a degree of assertiveness by the Bank. Leveraging can be substantially enhanced by close cooperation within the donor and multilateral development bank (MDB) community (e.g. by enhancing the instrument of cross-default clauses).

For projects involving environmentally sensitive components, monitoring by the Environment Department must include regular site visits and signing-off at completion of such components prior to their commissioning.

In line with the Bank’s environmental mandate, but also for reasons of reducing environment-related reputation risks, the Bank’s Environment Department needs to monitor projects involving environmentally sensitive components. This should be done through site visits on a scheduled basis to determine work progress or check against other benchmarks. The signing-off of such components’ completion, based on site inspections and prior to their commissioning, is regarded important. Commensurate budget and manpower resources need to be allocated for this purpose, if not earmarked as part of the investment proceeds.