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THE WORLD BANK

POLICY PLANNING AND RESEARCH STAFF

Infrastructure and Urban Development Department

Report INU [redacted] OR 2

FY89 TRANSPORT SECTOR REVIEW

Transport Division

November 1989

General Operational Review

FY89 Transport Sector Review
-The Year at a Glance-

✓ **Lending:**

21 dedicated transport projects and 26 projects with transport components presented to Board; 16 projects at advanced stage of appraisal; 35 projects identified and documented in IPB/ EPS; 10 out of 27 SALs/ SACs with transport content.

✓ **Country Economic and Sector Work:**

41 out of 68 completed country economic reports address inter alia transport sector related matters; 49 tasks in transport sector work were managed of which 26 were completed.

✓ **Portfolio Management:**

222 transport projects were under supervision.

✓ **Audits and Performance Reviews:**

28 tasks were accomplished.

✓ **Research:**

13 reports were published.

✓ **Training:**

46 in-house workshops and 5 external seminars dealing with transport matters were conducted for Bank staff. 16 transport sector management courses were carried out in developing countries.

✓ **Staffing:**

136 staff of different professional categories were involved in transport related sector and lending work, project supervision, auditing and training.

FY89 TRANSPORT SECTOR REVIEW

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FY89 TRANSPORT SECTOR REVIEW

I. SUMMARY AND RECOMMENDATIONS

A. Lending Activities

1.01 The Bank's transport sector activities during FY89 point to a continuing trend towards supporting sector development and improving the management of transport services and infrastructure in borrowing countries through lending operations which are based on system-wide approaches. The orientation of these lending operations reflects a heightened awareness within the Bank of the rapidly changing environments in which the transport systems of developing countries have to perform. Steadily progressing integration of global trade networks requiring efficient freight distribution systems, and growing demand for mobility of their diverse populations confront the governments of these countries with the need for major reforms of national transport services and upgrading of transport infrastructure. The pervasive problems of outmoded regulations, inadequate institutional arrangements, inefficient management practices and constraints on private sector initiatives represent impediments to better performance of national transport systems. These problems usually transcend all modes, and experience shows that it is difficult to correct such shortcomings by concentrating on one selected component of a transport system. Bank sector staff therefore rightfully started to conclude that required improvements in the provision of transport services in borrowing countries can be best achieved by addressing system-wide shortcomings in a coordinated manner, involving sector policy, strategy and management aspects.

1.02 The result is that an increasing number of annual transport lending operations are based on approaches which entail a broad sectoral focus and integrate the treatment of issues in regulation and management which transcend all modes. These new-style projects typically encompass several, and often all transport modes in a country, which is a significant trend away from modally oriented transport projects --the dominant lending instrument of past years. While this trend started in the early 1980s, the FY89 cohort of transport projects appears to represent an even more decisive departure from modal lending. Almost one third of the transport projects presented to the Board in FY89 reflected such approach, up from five percent in FY88, and less in preceding fiscal years. A look at the proposed lending pipeline through FY93 reveals that the proportion of broadly based and multi-modally oriented transport projects is expected to increase further, which are thus likely to become the key lending instrument for sector support in the years ahead. The focus of this year's Transport Sector Review thus is directed at the types of

issues, lending instruments and staffing implications of the trend to lending across modes.

1.03 Altogether 31 transport projects were appraised during the fiscal year, of which 21 projects --committing US$ 1,776.5 million in Bank loans and IDA credits-- were presented to the Board. They included eight highway projects, six sector lending operations, three projects each in for port and railway development, and one urban transport project. Out of the 27 structural adjustment lending operations which became effective in FY89, 11 contained initiatives related to transport sector reforms. In addition, 26 other projects with different core orientation but including major transport components were approved by the Bank. The transport initiatives under these projects were taken in the contexts of general infrastructure development (11 projects), urban infrastructure improvement schemes (six projects), public enterprise reform (six projects), trade logistics management (two projects), and regional development (one project). The proposed lending pipeline through FY93 suggests that the number of annual projects with transport components but intrinsically different core orientation will steadily increase.

B. Lending Instruments and Procedures

1.04 The trend towards more encompassing and multimodal transport lending approaches is pragmatic and is probably also more responsive to the need to tackle the pervasive sector problems in a coordinated fashion. The advantage is that it provides for a more comprehensive involvement of the Bank in all aspects of transport management and service delivery. However, the prerequisites for successful project implementation exceed those for the modally oriented lending operations to a considerable extent. In most cases, several line agencies will be involved, and reform needs will typically also encompass initiatives which do not fall within the domain of transport sector organizations. Thus a much more comprehensive institutional approach and substantial consensus-building is required.

1.05 The problems inherent in the new-style transport lending approach affected the FY89 sector lending program. The 21 transport projects which were processed through Board presentation represented only 50 percent of the initial sector lending target. Much slippage occurred because consensus with the various agencies to be involved in required sector reforms could not be reached in time. Some explanation has also to be sought in project design and related processing by Bank staff. Quite frequently, a more probing analysis of the causes and effects of system inefficiencies would have facilitated better issues orientation and responsiveness in project design, based on realistic assessments of the political acceptability of proposed interventions, and the institutional capacities to comply with the implied action programs.

1.06 This review includes an analysis of the experience with implementing transport sector lending operations, which were appraised during previous fiscal years. Most of these operations represent highway subsector loans, which nevertheless often included reform initiatives that extended beyond the purview of highway authorities --particularly in the areas of regulation and fiscal management. Generally, these projects have been most successful at enhancing the Bank-country dialogue regarding the investment program, focussing on overall project selection and design criteria rather than the intensive analysis of individual investments. Governments also have seen the benefits of such an approach, especially ministries of finance and planning, and the flexibility of project financing and accelerated disbursements. However, the findings under this review point to several problems in project design and during project implementation which need attention. Quite frequently the policy and institutional reform agenda under these lending operations was too ambitious, not well understood by the relevant government agencies, and commitment to effect required reforms turned out to be elusive. The lesson to be learned here is that broad-based sector reform programs should be incrementally instituted through a series of support operations and in line with governments' absorptive capacities. Selectivity in sector lending objectives is therefore called for. There were also a number of implementation problems which have their roots in existing Bank rules. They relate to procurement and implementation monitoring which have not responded adequately to the sector lending concept.

1.07 A potential issue is the need to streamline coordination among the various Bank work units that are pursuing transport sector improvement needs in borrowing countries through different approaches, such as country economic and sector work, dedicated transport projects, and lending for transport improvements under projects with other core orientation. The sector activities during FY89 point to the fact that more and more transport initiatives are taken by work units, other than the Infrastructure Divisions --and with sometimes only limited consultation among the different work units and involvement of transport staff. It is a good sign that improved transport is increasingly seen as an essential prerequisite for economic and social development in different parts of the Bank but care must be taken that conflicting signals are not given, and that a consistent sector support strategy is followed within individual countries.

C. Sector Strategies

1.08 The instruments for formulating strategies in support of transport development and improving system performance in borrowing countries during FY89 were economic and sector work, and applied research. Country economic and transport sector work carried out during the fiscal year included a considerable number of well managed tasks which were aimed at providing a guiding framework for required reforms and transport system adjustments in borrowing countries. INU and other PPR departments sup-

ported these endeavors through corresponding research and the issuance of several guidelines, especially in the area of environmental control. INU's Transport Division provided substantial support to regional sector work and lending efforts. Particularly noteworthy are the SSATP initiatives by the TD in the Africa region and the country surveys by different SODs in the EMENA regional office. However, the opportunity for integration of country economic and sector work should be further exploited, as the macro-economic linkages of national transport systems become more pronounced. Compared with previous years, staff time spent in pursuit of transport sector work reached an all-time high in excess of 600 weeks, but three tasks --sector analyses in China, the Maritime Sector Assessment for the proposed Environmental Program for the Mediterranean, and preparatory work for SSATP-- consumed more than 50 percent of the time recorded as sector work.

1.09 Last year's experience with country economic and sector work, and with the new-style sector lending approaches points to a set of key transport issues which require special attention. They include:

* pricing and fiscal management;
* enterprise reform;
* infrastructure maintenance;
* environmental concerns; and
* trade logistics management.

The need for guidance in dealing with these issues has been recognized. INU and the regional TDs --particularly in Africa-- have put this requirement high on their work agendas. Corresponding research was actively pursued during FY89. As regards the pricing issue, it was found that cost recovery is generally adequate in borrowing countries but there often exist serious distortions in the structure of tariffs. In the area of enterprise reform, most striking is the proliferation of initiatives worldwide --not always well conceptualized-- frequently with significant labor redundancy implications. Research related to trade logistics management revealed that changing shipper practices and related restructuring in the the organization of international transport require substantial adjustment in the provision and management of transport infrastructure and services in developing countries. Assessments of the environmental impact of transport operations and infrastructure development demonstrated the need for better criteria regarding the design, the construction and the provision of transport infrastructure and services. Follow-up investigations into the general topic of highway management and maintenance demonstrated commonly notable improvements, except in some African countries. The experience with outside seminars and workshops with regional transport managers during FY89 points to their high utility as an instrument for disseminating Bank findings and to foster policy dialogue.

D. Staff Resources

1.10 The need for improved institutional capacity in the Bank to deal with the increasing complexities of transport sector adjustment needs is beyond dispute. Human resources are key to this. The Bank has presently a sector staff of 136 professionals, including 65 technical specialists and engineers, 48 economists, and 23 financial analysts. There are discernible tendencies among regional work units to increase the proportion of generalist staff --mostly with economics background-- at the expense of technical experts. In many cases engineer positions, vacated through retirement, are filled with non-technical professionals. This trend calls for caution, as the demand for engineering expertise will remain, and a core of experienced Bank engineers should be retained despite the increasing practice of hiring consultants for such tasks. There is a strong need to maintain the Bank's technical integrity in the sector.

1.11 A great challenge is the absolute requirement to enhance the Bank's ability for effectively dealing with transport policy and management reforms. It is particularly the efforts aimed at improving the management of transport services and infrastructure, which require sound expertise. Such expertise should optimally be based on active involvement in managing different segments of the transport industries. However, there are very few Bank staff members who have such a background. The stop-gap solution is commonly to hire consultants. But even in the consultant market such expertise is limited. Thus the Bank is held to remedy this situation and to enhance the staffs' ability to deal with these matters more effectively. During FY89, INU and the TDs in the regional offices arranged for a series of seminars and workshops which were aimed at providing staff with insights into changing transport market environments.

E. Recommendations

1.12 Two important questions arise from the FY89 Transport Sector Review. Firstly, one has to ask 'What should be done in order to ensure that the Bank is technically prepared to venture into substantially more transport sector lending, as is proposed?'; and secondly, there is the question of 'How should existing Bank rules relating to project design and conditionality, procurement and monitoring be adjusted to better meet the special requirements for successful implementation of transport sector lending operations?'.

1.13 The first question implies a need to deal with the issues of guidance, staff resources and a coordinated Bank sector support strategy for individual countries. Concerning guidance, there are the earlier mentioned ongoing efforts in the regional TDs and INU's Transport Division. The key areas requiring attention include pricing and fiscal management, enterprise reform, management of transport infrastructure, and

environmental considerations. Of special importance is also the role and function of transport in support of trade development. This assessment is in line with the recommendations of the Sector Strategy Paper for Transportation, which was issued in December 1988. However, there are only limited budget allocations available to pursue related research. It is therefore recommended that more substantial funds be made available to support these efforts. Furthermore, there is a need for regional strategies with regard to transport issues. The Africa and LAC TDs have made commendable progress in establishing guiding frameworks for transport support operations in their respective regions. The Asia TD is planning an urban transport strategy for FY90.

1.14 Preparing transport and other Bank staff for dealing with sector lending approaches more effectively is a need which must be given highest priority. The training and workshops arranged during FY89 were instrumental in creating awareness of the changing market conditions. However, these efforts should be continued even more forcefully, and ways should be considered to expose selected staff to modern transport management practices in a more profound manner, such as short-time secondments. However, this will require additional funds. It is recommended that the regional TDs, INU's Transport Division and Personnel draw up a concerted action plan for transport staff development, including organizational and funding arrangements. As the core of technical staff shrinks, it is highly important that the regions coordinate their recruitment of such staff and that there be more fungibility of technical staff time between regions. It is recommended that procedures be established whereby an engineer or specialist in one region with a particular expertise can be used in another region without undue bureaucratic effort.

1.15 The issue of coordinating transport sector support efforts by different work units in the Bank has not been a serious problem to date, but there is the danger that conflicts may arise as more and more units outside the sector divisions pursue transport related matters. This will require more effective discussions by the country teams with support, where necessary by the TDs and INU.

1.16 Finally, there is the question of how existing Bank rules which govern sector lending should be adjusted in light of the experience gained with such lending operations. Based on the findings under this sector review, following recommendations are offered:

* There is a need to control the tendency towards overambitious reform objectives, and selectivity in the issues to be treated is called for;

* Up-front conditionality is the most effective way of achieving difficult policy and institutional reform actions;

* Procurement guidelines for sector lending need to be reviewed to ensure that they relate appropriately to sector lending objectives;

* Monitoring measures and related Bank documents need to more adequately address sector lending approaches; and

* The TDs should assess during the annual ARIS exercises progress under sector lending, in particular focus on technical quality issues.

II. SECTOR ACTIVITIES DURING FY89.

2.01 This chapter provides an overview of Bank activities during FY89 which were related to transport sector development and management in borrowing countries. A total of 26 work units and 136 specialist staff in the regional offices, EDI, OED and PPR were directly involved in these activities. A discussion of selected key issues addressed by these efforts is given in Chapter III.

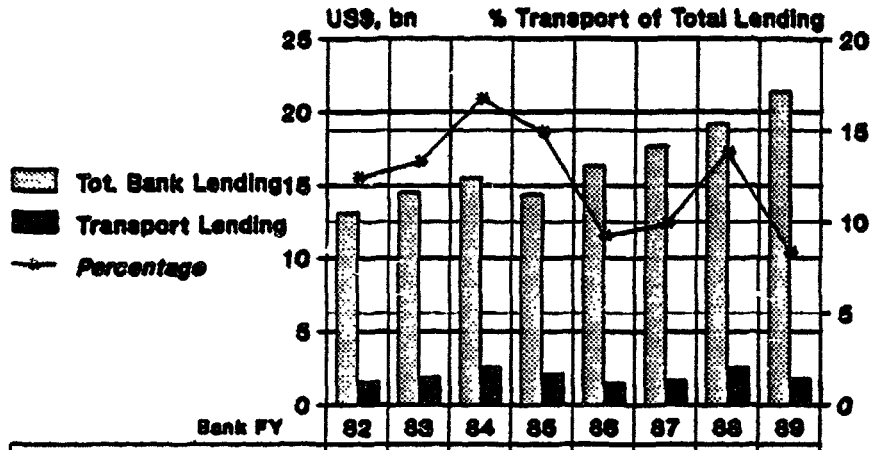
A. Lending Operations

2.02 A total of 31 transport projects were appraised during the fiscal year, of which 21 could be presented to the Board. The cumulative lending commitment under the approved projects amounted to US$ 1,767.5 million with IBRD loans representing a share of 69 percent; the balance were IDA credits. Highway projects for China and India received a blend of IBRD and IDA allocations. For details see Table 1 in the Annex. Dedicated transport lending --projects with exclusive treatment of sector issues-- as a proportion of total Bank lending declined to 8.3 percent in FY89, compared with 13.8 percent in the previous fiscal year and an annual average of 12.7 percent during the first half of the 1980s. Most of the decline occurred in Africa (61 percent), followed by Asia (31 percent) and EMENA (9 percent). LAC sector lending increased slightly over the FY88 figure (Graph 1). Considering that 42 dedicated transport lending operations were scheduled to be processed through Board presentation at the beginning of FY89, the question arises why so much slippage has taken place. Some slippage happened because project appraisal started too late to enable processing through Board presentation during FY89 (e.g. Burundi-Transport Sector, Chile-Roads Sector II, Colombia-Rural Roads Sector II, Mauritius-Highways II, and Yugoslavia-Highway Sector III). With other projects there were obvious problems of agreeing with governments on proposed action or reform agendas, as in the case of Congo-Roads Rehabilitation, Costa Rica-Transport Sector, Mozambique-Transport Rehabilitation, and Sudan-Highway Rehabilitation. The Jiangsu Provincial Transport Project in China was delayed for other unforeseen reasons.

2.03 As can be inferred from Graph 2, there has been a substantial change in the modal orientation of dedicated transport lending operations. This trend started in the early 1980s but FY89 appears to represent an even more decisive departure from predominantly modal projects --with highway projects usually taking the lion's share-- to lending operations with broader sectoral focus, covering several modes. The Bolivia-Export Corridors, Chad-Transport SECAL, Ethiopia-Transport, and Uruguay-Transport I projects are typical examples of this new type of sector lending operation. The view is rightfully taken that required improvements in the provision of transport services in borrowing countries can be better achieved by addressing system-wide shortcomings in a coordi-

GRAPH 1

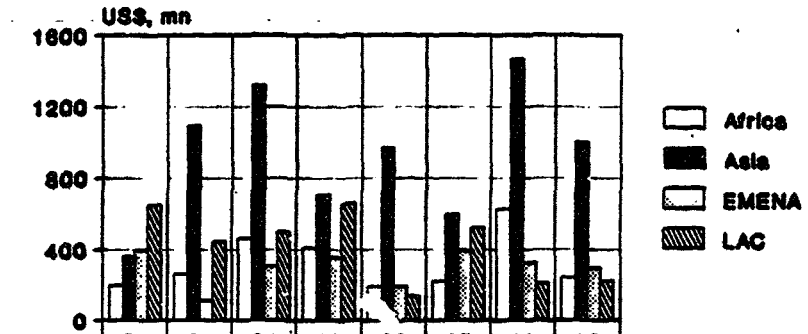
Lending for Dedicated Transport Projects
in Relation to Total Bank Lending



Tot. Bank Lending	13.1	14.5	15.5	14.4	16.3	17.7	19.2	21.4
Transport Lending	1.6	1.9	2.6	2.1	1.5	1.7	2.6	1.8
Percentage	12.4	13.3	16.7	14.9	9.2	9.9	13.8	8.3

(Lending Amounts rounded to full digits)

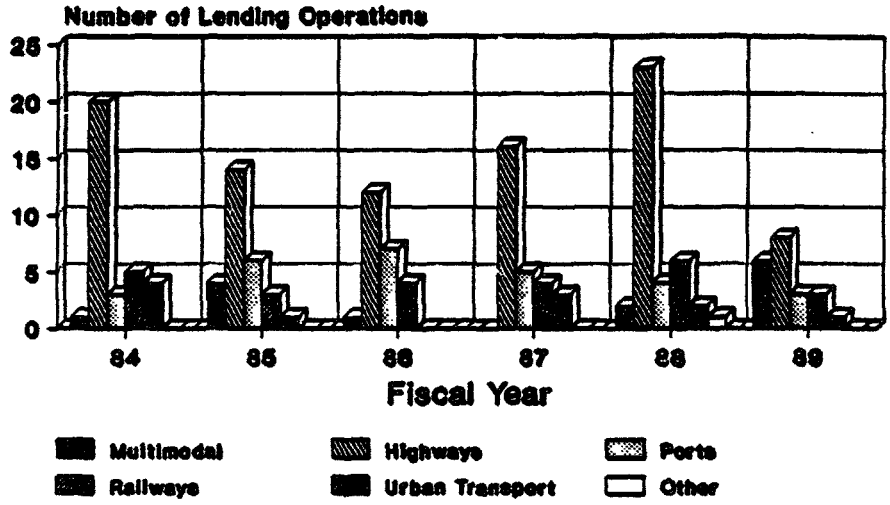
Dedicated Transport Lending
Regional Distribution



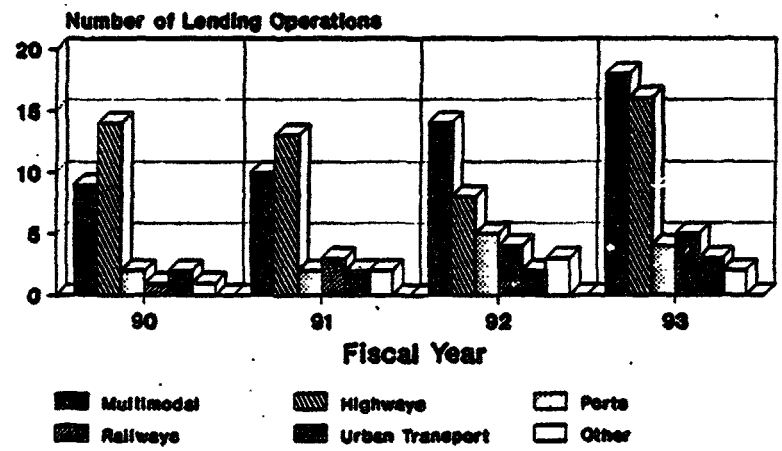
Africa	199	266	464	410	193	227	629	244
Asia	366	1094	1323	710	971	601	1471	1003
EMENA	398	116	309	357	193	394	327	296
LAC	652	447	501	662	141	524	211	224
Total	1615	1923	2597	2139	1498	1746	2638	1767

GRAPH 2

Modal Distribution of Lending
(Dedicated Transport Projects)
-Actual-



Modal Distribution of Lending
(Dedicated Transport Projects)
-Projected-



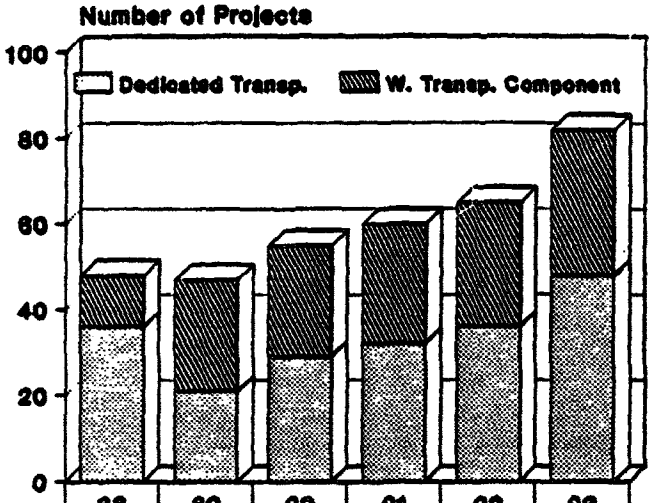
nated fashion, involving sector policy, strategy and management aspects. Looking at the lending pipeline through FY92 (Graph 2), it is evident that broadly based transport sector projects will increase as the dominant lending instrument, while the number of annual highway projects will further decline as a proportion of total transport lending. Dedicated lending for ports and railways will continue to hold a steady share of 3 to 5 projects a year. Noteworthy is the emergence of a relatively stable program of 2 to 3 free-standing urban transport projects per year from FY90 onward. Table 2 in the Annex provides an overview of the proposed transport related lending operations in the four regional offices between FY90 and FY93.

2.04 In Chapter IV, a review of the Bank's experience to date with transport sector lending --mainly highway sub-sector lending-- is presented. This review suggests that the outcome has been generally satisfactory but also that further refinement to the lending instrument would be desirable, especially since the experience with broader sector lending is still limited. While the trend towards transport sector lending represents a sensible development in addressing policy and institutional reforms in borrowing countries, the prerequisites for successful project implementation exceed those for the modally oriented lending operations to a considerable extent. In most cases, several line agencies will be involved, and reform needs will typically also encompass initiatives which do not fall within the domain of transport sector organizations. Thus a much more comprehensive institutional approach and substantial consensus-building will be required. The slippage of some sector lending operations in FY89 attests to this observation (e.g. Costa Rica-Transport Sector). The key problem was the need to involve several line agencies, like ministries of commerce, finance and labor, in conceptualizing and designing specific projects and related interventions. In addition, significant expertise will be necessary among Bank staff in the areas of transport service and enterprise management, labor organization, legislative reform and innovative financing arrangements. This demand for expertise will be especially pronounced in the Africa and EMENA regions, given their significant plans for multimodal transport lending.

2.05 An interesting and noteworthy development during the fiscal year was the increasing number of projects with transport components which were prepared by Bank work units, other than the Infrastructure Divisions. During FY89 a total of 26 projects with transport components, not prepared under the auspices of sector staff, went to the Board (Table 3 in the Annex), up from 12 projects in FY88. A review of proposed Bank lending through FY93 reveals a growing trend towards addressing transport sector issues under lending operations which have a predominantly different core orientation, including (in order of importance): urban infrastructure, public enterprise reform, general infrastructure development, trade logistics management, and rural/regional development (Graph 3). In addition, 11 out of 27 SAL/SACs that were approved by the Board included provisions for reform in national transport systems to varying degrees. These developments provide a clear indication of the commonly perceived importance of effective transport for economic growth and the delivery of social services in developing countries.

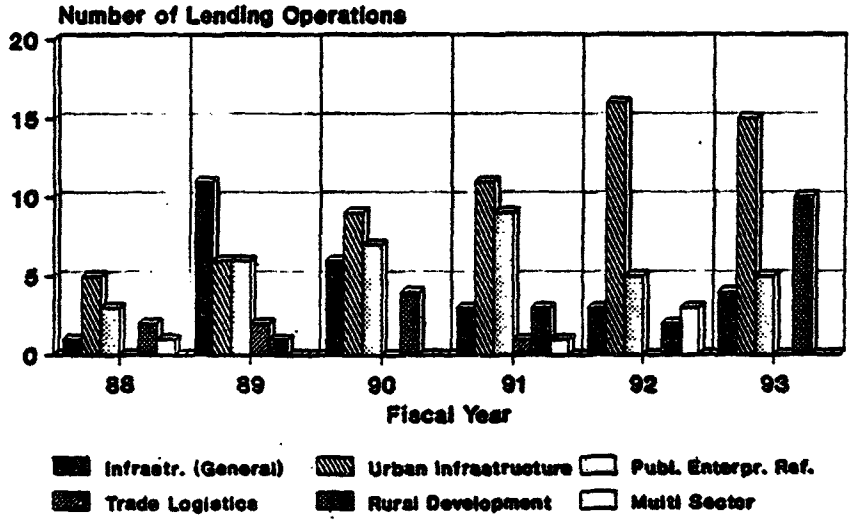
GRAPH 3

Trends in Transport Related Lending



BANK FY	88	89	90	91	92	93
W. Transp. Component	12	26	26	28	29	34
Dedicated Transp.	36	21	29	32	36	48

Context of Transport Initiatives
(Projects of different Orientation)



FY89 Selected Lending Operations with Transport Components

COUNTRY Project	Transport Components
BANGLADESH Second Flood Rehabilitation	* rehabilitation of roads, bridges and culverts; replacement of tugboats, and hydrographic equipment.
BURUNDI Second Urban Development	* upgrading of urban streets in five secondary cities.
CHINA Medium Size Cities	* urban street construction; traffic engineering and management measures; reforms of public transport pricing.
GAMBIA Enterprise Development	* management improvements for public enterprises (ports, air transport, and bus services).
INDONESIA Private Sector Development	* shipping deregulation.
MOZAMBIQUE Rehabilitation III	* transport pricing reforms; private sector promotion in the provision of transport services.
PORTUGAL Tras-O-Montes Regional Development	* rural road construction and maintenance.
UGANDA Public Enterprises	* divestiture program for national airline; planning of rail and air service management improvements.

2.06 These trends are healthy and provide for a broad involvement of the Bank all aspects of transport management and service delivery. At the same time, however, there is a compelling need for a concerted sector support strategy which will serve as a guide for Bank staff from different work units in pursuing transport sector reforms and in designing interventions which are aimed at performance improvements. Without such a

commonly accepted strategy there is a danger that conflicting signals are given and diverging arrangements are made for sectoral adjustment under different lending operations. The danger lies in the still limited consultation process between the responsible work units and transport staff in the context of planning and instituting transport sector interventions under projects with intrinsically different core orientation. Better orchestration of sector development and management strategies is therefore required. The regional TDs should assume a much stronger role in such efforts. They should also be the key centers for quality control.

B. Country Economic and Sector Work

2.07 Of the 68 country economic reports that were published during the fiscal year, 41 included transport sector considerations. The contexts in which transport matters were addressed included public sector financing and expenditure reviews, public enterprise surveys, analyses of development plans and investment strategies. Significant coverage of the transport sector was included in country economic work for Laos (Country Economic Memorandum) and Uganda (Towards Stabilization and Economic Recovery). Given the growing evidence that transport is an important element to economic recovery and broadening of exports, there is more opportunity and need for interaction between country economic and sector work. As will be shown further below, efficient physical distribution networks become increasingly important as an essential prerequisite for improving trade performance.

2.08 Transport sector work during the fiscal year comprised 50 tasks of which 26 were completed (Table 4 in the Annex). These tasks were managed by the regional Infrastructure Divisions. Noteworthy is the fact that at least 15 additional items of transport sector work were carried out by other regional work units, particularly the Industry, Trade and Finance Divisions. Furthermore, an estimated 25 tasks dealt with transport sector aspects in the context of sector work which covered urban and regional development, infrastructure management, public enterprise reforms, and trade facilitation. Again, a problem was that in several instances little coordination of these various efforts has taken place between the managing work units and the regional Infrastructure Divisions. Limited information and consultation processes have in some cases led to conflicting sector strategies and procedural arrangements. These circumstances were compounded by the state of the Bank's internal data bank and information system. Available background material is frequently difficult to identify and to retrieve. As a result, many task managers reported to have refrained from investigating the Bank's information resource centers before launching a major new initiative. Duplication of work and avoidable costs have been the consequences. This problem has now been recognized by Bank management, and improvements to documentation centers have been initiated.

2.09 The four regional offices have pursued different avenues in going about transport sector work during the fiscal year. The Africa region has devoted considerable effort on trying to establish a guiding framework for transport sector management and development in Sub-Saharan Africa under the SSATP initiative. This initiative is in support of preparatory work for the new Transport Development Decade for Africa. SSATP is a unique undertaking which is sponsored by a wide variety of multi- and bilateral agencies. Crucial questions that are being addressed relate to the need to improve arrangement for road maintenance, transport enterprise management, trade logistics networks, and rural infrastructure. Of special interest is the work on rural transport and trade logistics chains in West and Southern Africa. A number of field seminars were arranged in FY89 for regional sector administrators and managers to discuss transport issues in Africa and to review options and required measures for improving the provision of infrastructure and services. These seminars have turned out to be effective instruments for disseminating the findings under Bank sponsored sector work and research. The experience made with similar efforts in the other regional offices points in the same direction. Country related sector work in Africa included five more traditionally oriented sector strategy notes (Cameroon, CAR, Equatorial Guinea, Gabon and Mozambique). Three additional tasks deserve special mention, i.e. Kenya-Urban Transport Development Issues, Nigeria-Road Sector Strategy Paper, and Zaire-Trade and Transport Study. The Kenya exercise established an agenda for proposed urban transport lending by providing an in-depth analysis of issues and options in this subsector. The Zaire initiative is a move to investigate the causes and effects of transport sector shortcomings on trade performance. Finally, there was the financial work done in Tanzania (Transport Sector Financial Performance Review) which provides a probing assessment of issues in charging for the use of transport resources and financing of sector development and maintenance.

2.10 The Asian region arranged for a review of transport sector issues common among the ASEAN countries. Otherwise substantial sector work was only organized for China and Indonesia. In China, considerable effort was put into the Provincial Transport Study which was aimed at designing a guiding framework for the planned increase in comprehensive regional transport development projects in that country. The Shanghai Ports Study is of particular interest as it represents an analysis of port development and management adjustment needs in the context of changing metropolitan, trade and transport industry environments. The Indonesia exercises were largely 'stock-taking' tasks. Possibly the most interesting tasks were undertaken in India through analyses of the relation between trade and transport sector performance (The Growing Conflict between Trade and Transport). Together with ADB, EDI organized a workshop to discuss transport policy issues in Asia with high-level representatives of regional governments. The workshop took place in Manila in February and provide valuable feedbacks for further sector work the in regional economies.

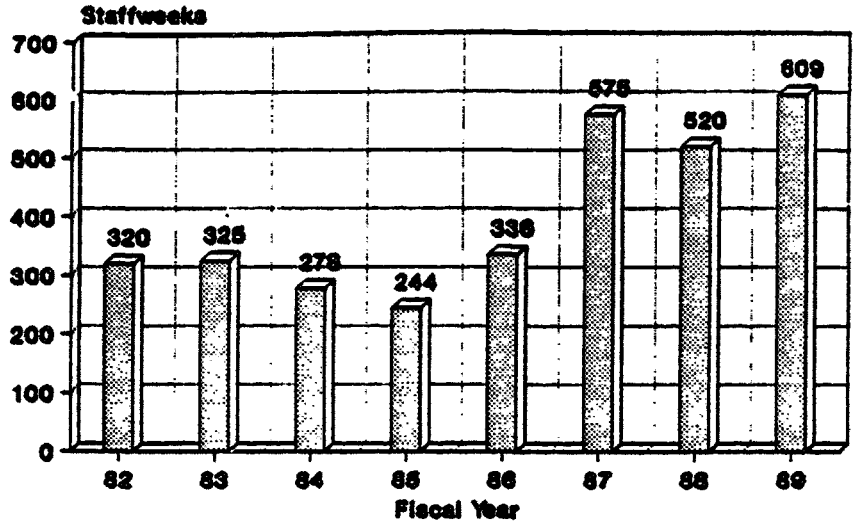
2.11 Sector work in EMENA was characterized by well managed efforts to establish agendas for assisting the regional countries to organize

more efficient transport in the changing macro-economic environments. Good examples are documented in the reports on Hungary, Pakistan and Poland. A similar exercise was initiated in Yugoslavia which looks at options for developing transport markets in that country. A special study was carried out in Morocco which addresses issues in managing urban transport services (Urban Transport Enterprises: A Tale of two Cities). This is a good and comprehensive analysis of enterprise reform needs, which are common among metropolitan areas in many developing countries. Of special interest is a regional seminar which was organized to discuss railway management issues in East European countries: it was held with much support by bilateral agencies in Vienna. Finally, the Maritime Sector Assessment as a contribution to the proposed Environmental Program for the Mediterranean represented a major piece of sector work.

2.12 Only limited transport sector work was carried out in LAC, with Mexico receiving most attention in the context of the public enterprise reform and deregulation efforts. The Argentina-Transport Sector Enterprises task was an attempt to shed light on the effects of an unwieldy organizational setup and overregulation on transport service provision. Following an earlier and similar study for the West coast of the South American Subcontinent, the Region started an analysis of changing shipping patterns along the East coast. The findings are intended to provide guidance for developing and managing regional ports. In support of this undertaking a workshop was held in Mendoca (Argentina) to which regional shipping and port managers were invited to discuss maritime transport issues. Another regional workshop took place to review highway maintenance issues and to disseminate the outcome of Bank work on road management.

2.13 Overall, the Bank's sector work continued to be of high standard. Some of the initiatives taken during FY89 clearly demonstrate the staff's awareness of substantial change in individual countries, and the implied adjustment needs in national transport systems. If there was one topic to which increasing attention was given, it was the relation of transport to trade. The SSATP and Mexico corridor studies, the Indonesia and Zaire trade related transport surveys, the sector reports on Hungary, Pakistan and Poland, and the special analyses in India, all deal with this subject to varying degrees. It is important to note the substantial increase in the time allocations for sector work (Graph 4); during the fiscal year it reached an all-time high of 608.8 weeks. There is however substantial concentration in a certain number of tasks, which masks the significance of this observation. Time recorded for staff involvement under SSATP (99 staff-weeks), in China (185 staff-weeks) and in the context of the Environmental Program for the Mediterranean (35 staff-weeks) accounted for more than half of all transport sector work.

Transport Sector Work ***GRAPH 4***
Annual Staff Allocations
(Time actually spent.)



C. Portfolio Management

2.14 During FY89 there were 222 transport projects under supervision, up from 214 in the preceding year. The actual staff time allocation for supervision was just under 10 weeks on average, which has not changed over the years since the beginning of the decade. Railway and port projects continue to require most attention. A critical development is the time spent on supervising the implementation of projects with broad sector orientation and comprehensive reform programs. The initially budgeted time allocations were frequently exceeded by substantial margins. The range was between 20 and 50 staff-weeks. Typical examples are: Brazil-Port Technical Assistance, Cyprus-Transport, Ghana-Transport Rehabilitation I, Indonesia-Rural Roads Development, Mexico-Highway Sector II, and Nigeria-Transport Parastatals. While the point can be made that projects usually require more than normal supervision efforts during their start-up period, it is nevertheless telling that actually spent supervision time for projects with broader sector initiatives did not decline during subsequent years of implementation (e.g. Indonesia-National Ports Development).

2.15 The performance record of Bank financed transport projects overall remained at a steady average rating of 1.80-1.85, which was more or less in line with the composite rating for all Bank financed projects under implementation during FY89. Looking at the individual performance criteria, as applied in completing the 590 forms, following picture emerges:

Performance Rating of Transport Projects

Criterion	Rating	
	Transport Projects	All Bank Projects
* Project Development Objectives	1.45	1.60
* Compliance with Legal Covenants	1.56	1.57
* Project Management Performance	1.71	1.75
* Availability of Funds	1.51	1.52
* Financial Performance	1.84	1.82
* Procurement Progress	1.73	1.64
* Training Progress	1.73	1.61
* Technical Assistance Progress	1.58	1.60
* Studies Progress	1.51	1.59
* Environmental Aspects	1.07	1.25

Only nine percent of all transport projects were categorized as experiencing major implementation problems, and 52 percent were reported to have moderate problems.

D. Audits and Performance Reviews

2.16 During FY89, OED together with the regional Infrastructure Divisions carried out a total of 28 post-completion project reviews in the form of project completion reports (PCRs) and project performance audit reports (PPARs). OED also issued a report which provides a summary of all PCRs and PPARs prepared during the calender year 1988. All 19 projects reviewed during that period were rated as successes. Most of the 14 projects reviewed were in the highway sector. The success rating referred mainly to implemented investments, but there continued to be weaknesses in the institutional and policy areas. Among the lessons learned were the following:

* project processing should be delayed until the uncertainties of costs and benefits are reduced to an acceptable level;

* over-sophisticated solutions, complexity and ambitious objectives tax the absorptive capacity of the borrowers;

* formal agreement by the borrower to accept technical assistance is no sufficient indication of commitment to institutional reform;

* institution-building requires Bank follow-up with a series of projects; and

* enforcement of axle-load limitations continues to be elusive.

2.17 The findings of the 1988 review were not surprising nor new, except for the broad report of success. The picture, however, changes when one looks at the cohort of completion reports prepared during the second half of FY89, which were not included in that review. Among the projects reviewed were five railway projects which showed considerable shortfalls in terms of economic rates of return and reform programs (e.g. Congo-Railways II and Pakistan-Railways XI with zero and negative rates of return, respectively). Under the Argentina-Railways II project substantial reform efforts came to a halt. In the case of all above projects the Bank took strong action, including partial loan cancellation (Argentina), refusal to extend the project (Pakistan), and suspension of supplementary credits (Congo). These projects were appraised before the Railway Problem Paper was issued in 1982, which called for more stringent up-front conditions prior to appraisal and Board presentation.

E. Research

2.18 The research program for the transport sector generally followed the directions discussed with the regions during the FY88 Transport Sector Review meetings. These directions reflect to a considerable extent the perceived needs for guidance in formulating and implementing the broad-based sector lending operations. In response to these needs, a number of related INUTD research initiatives progressed during FY89, and a series of pertinent documents were issued. They basically address following themes:

* pricing and finance,
* enterprise reform,
* infrastructure maintenance,
* environmental concerns, and
* trade and transport.

These documents provide probing assessments of some pervasive issues at stake in transport sector planning and management in developing countries. In several instances, they include guiding frameworks for correcting common sector shortcomings.

2.19 However, there was slippage in the transport research program as the demand for operational support exceeded original time allocations of INUTD staff by 50 percent. The Division provided about 120 staff-weeks of support. The regional support was appropriately linked to the key

themes indicated above but it limited the ability to assign a critical mass of time required to conduct and publish projected research. It is clear that in FY90 support will have to be reduced in order to complete major pieces of work so that the urgent need for guidance in sector lending can be more effectively met.

2.20 Pricing and Finance. While there were only a few published outputs on this topic in FY89, there was substantial progress in related research which should lead to key documents in FY90 and FY91. Recent INU research has focussed on concerns regarding demand management, productive efficiency and cost recovery, as they are reflected in pricing policies. A policy paper proposing the appropriate approach in the transport sector is due in FY91. Also, FY91 will see completion of work financed by the Research Committee on the estimation and introduction of appropriate road taxes in countries where data are scarce. The research is being carried out in collaboration with the Africa Region (SSATP), but will have implications for user charge studies in other regions as well. The issue of transport finance logically follows on from the pricing strategy. INUTD joined with EMTIN and LEG in a study of "Build, Operate and Transfer" (BOT) schemes for the private financing of infrastructure, to be published in FY90.

2.21 Enterprise Reform. Work proceeded on restructuring of railway enterprises, particularly looking at the pros and cons of various contrat-plans, and on administration of ports considering the advantages and disadvantages of centralized versus decentralized port functions (this last effort being financed by INUTD and carried out by LATIE). The Research Committee approved the proposal for research on Labor Redundancy which will begin in FY90. A review of labor redundancy efforts in transport in developing countries was completed, illustrating the significance of the issue for the sector and the importance of the forthcoming research.

2.22 Infrastructure Maintenance. The Division's work on highway maintenance centered on completion of the Highway Design and Maintenance model's PC version, the subcontracting of the distribution of the model to McTrans of the University of Florida and the training of staff in the regional offices and non-Bank professionals. The regions extended the dissemination of the Road Deterioration Policy Paper with seminars in Asia, Africa and Latin America, supported by PPR. Further research is being conducted on Road Information Systems with a modular format relevant to data poor and data rich countries. Work on maintenance issues was extended to ports with the publication of the initial country reviews on port equipment maintenance leading to detailed technical guidelines in FY90.

2.23 Environmental Concerns. Two significant outputs were published in FY89 relating to environmental issues. The first is a set of guidelines for the environmental review of investments in ports and harbors. The second is an analysis of standards for road and rail transport. The latter will lead to a set of guidelines for road and rail infrastructure construction in FY90 and to an issues paper on transport-related air

pollution. In response to questions from the Board relating to dredging in port projects, INUTD is preparing --with funding from ENV-- a document on the state of the art for the disposal of contaminated dredge spoils, to be issued in FY90.

2.24 Trade and Transport. Several research initiatives continued in FY89 trying to better estimate the importance of transport to the comparative trade advantages of developing countries and what could be done to improve related distribution networks. A report entitled Transport and Invisible Trade explores the relative weight of transport in the IMF Balance of Payment statistics and the differing trends between industrialized and developing countries. This research clearly shows the relative inability of most developing countries to obtain the benefits of lower shipping rates. A follow on piece of research looks at the impact of shipping regulations on trade liberalization through an analysis of the deregulation experience of Chile. INUTD related efforts in trade logistics and facilitation progressed with a number of market analyses which assess changing shipper practices and the causes and effects of restructuring in the international transport industries, especially ocean shipping. Another major task addressed the rapid progression of electronic networking and the consequences for trade and transport management. The corresponding reports will be available in early FY90. Setting the necessary frameworks for related economic and sector work, as well as sector support operations, a document under the title 'Seatrade, Logistics, and Transport' was completed, to be published as PPR Policy and Research Paper in early FY90. In order address the urgent need for guidance in the regional offices as regards the adequacy of trade logistics management in borrowing countries, a pilot study was carried out in India to demonstrate effective procedural arrangements. A corresponding report entitled 'India-The Growing Conflict between Trade and Transport' will be published as PPR working paper in November 1989.

F. Training

2.25 Training related to transport development and management was organized by several Bank work units. Most of the training provided had strong links to identified issues and needs. INUTD sponsored a total of 26 afternoon workshops for Bank staff during which experienced sector managers, mostly from outside, addressed a variety of aspects related to enterprise reform, the environment, transport pricing, and technical as well as organizational change in the transport industry. Furthermore, the Division arranged for two-day seminars that dealt with toll roads and trade logistics management. These workshops and seminars were well attended and provided a welcome opportunity for Bank staff to improve understanding of current sector issues, and of the experience gained elsewhere in arranging for performance improvements. Finally, and following an already established tradition, INUTD organized a one-week seminar for Bank staff to become more familiar with modern port management practices. The seminar was hosted by the Port of Hamburg.

2.26 In the regional offices the Infrastructure Divisions of the Technical Departments took several initiatives and arranged for training of Bank staff, as well as sector personnel in the field. Especially active were the divisions in the Africa and LAC Technical Departments (TDs). Field seminars were held in the areas of road maintenance management and the organization of ocean shipping. Several visits to interesting transport facilities in the U.S.A. were also arranged.

2.27 EDI was particularly active in China during FY89, where seminars on intermodal transport organization and transport policy formulation were held. Training in Africa took the form of road maintenance management workshops of several days duration. A special workshop on Asian Transport Policy was jointly organized with the ADB and held in Manila in January 1989.

2.28 The question which finally emerges is 'how can the increasingly pressing need for expertise in formulating and instituting system reforms under the new-style transport sector lending operations be met?' The Bank's sector staff includes many fine professionals who require, however, by own admission more familiarity with ongoing trends in transport organization and management. There is also the need to learn from the experience with pursuing different avenues to improve the responsiveness of transport services to changing demand patterns, and to arrange for better performance --technical and financial-- of national transport systems. The Bank's sector research program is addressing these issues but there is the fundamental requirement to organize staff training in a complementary manner. This will be a challenge for FY90. The regional TDs should take the lead role, with support from INU's Transport Division.

III. TREATMENT OF SELECTED TRANSPORT SECTOR ISSUES

3.01 The changing orientation from modal to broader sectoral and multimodal lending represents the culmination of a trend which began when the Bank reorganized the subsectoral regional highways and ports and railways divisions into transport divisions and subsequently into Infrastructure Divisions. As the commonality of issues across the transport modes becomes more evident, lending has taken a broader focus and it is now more appropriate to discuss Bank effectiveness in the sector by looking at generic issues rather than just the individual modes. Needless to say, the particularly technical considerations relating to individual modes should not be ignored but rather brought into a better balance with the sectoral perspective and the Bank's desire for significant progress on institutional and policy reforms. Indeed, certain issues may only relate to a single mode. The following review thus breaks with the traditional modal perspective and is organized by issues, based on the discussion in the Sector Strategy Paper issued in FY89.

A. Transport Pricing and Fiscal Management.

3.02 Last year's Transport Sector Review and the discussions with the regions identified pricing and financing of transport infrastructure and related services as a crucial area for more effective Bank policy, technical guidance and country dialogue. The FY89 portfolio of lending and sector work represents a considerably heightened interest in coming to grips with the issue and provides an array of varying objectives and approaches being applied.

3.03 More than half of the FY89 transport projects deal with the need to improve the performance of transport parastatals or private enterprises. It is interesting to note that the pricing focus in most of these projects is on restructuring of existing tariffs with overall revenue levels being relatively satisfactory. In the case of ENFE, the Bolivian Railways (Export Corridors Project), while present financial ratios are healthy, there is a concern about future road competition and the excessive charging of long distance versus short distance traffic. Zaire's ONATRA (responsible for rail, river and port services) and SNCZ (railways) require tariff restructuring (Transport Rehabilitation I). In the latter case, mineral products have been carried at tariffs substantially above costs, while agricultural goods have been carried below costs. Similarly, Ethiopia's Maritime Transportation Authority (MTA) and Maritime and Transit Services Corporation (MTSC) appear to be financially strong despite unchanged tariffs for the past ten years. Structural changes, however, are considered necessary in order to promote efficiency (Transport Project). Better cost-based port tariff systems are also called for in Uruguay (Transport I) and in Algeria (Third Ports Project). Even under the Chile-Urban Roads and Transport Project, the overall financial situation is considered viable, including the Metro, but improved tariff structures such as integrated Metro-bus tariffs are called for. Only in the case of Yugoslavia-Railways VII does the overall financial performance seem so dire that the focus of conditionality is on across-the-board tariff increases. Encouraging is that most of the studies, required to establish tariff restructuring, have been completed, except in China and Uganda, so that the projects' focus can be on implementation.

3.04 The rationalization of subsidies is also being addressed in the enterprise-related projects with the most significant initiative being undertaken in Hungary (Transport II). While road freight services are generally self-financing, urban and suburban passenger fares are heavily subsidized. The project calls for a 50 percent reduction in the level of passenger subsidies by 1993 which would reportedly bring fares to the equivalent of 'full marginal costs'. This has been complemented with the authorization of private mini-bus and taxi services, the competitive tendering for non-remunerative routes and a study to better direct subsidies to target groups. In other projects, the subsidy issue has been handled by seeking transparency and compensation, as in the case of the Yugoslavia-Railways VII and Zaire-Transport Rehabilitation I projects, both requiring government compensation for non-remunerative services.

3.05 Most of the enterprises will continue under regulatory control but there are a few instances where attempts are being made to liberalize tariff controls. The Zaire project is seeking the handing over of tariff decisions to ONATRA and SNCZ, and the Algeria port enterprises are expected to work toward a decentralized tariff regime and to take on financial responsibility for infrastructure investment as well as operations. The most dramatic reform measure is the deregulation of tariffs for Chadian trucking with a two step approach beginning with a tariff floor and ceiling for trucking services, leading to a full deregulation within one year (Transport SECAL).

3.06 All of these efforts represent a positive response to the need to improve the institutional performance of transport enterprises. Given the experience under past Bank projects, there are concerns as to whether the objectives may appear over-optimistic and future annual reports should monitor these projects. Another concern relates to the emphasis on cost-based pricing. Each project provides a varying definition of the target with most focussing on traditional financial ratios and different rates of return on assets. One project (Bolivia-Export Corridors) defines long run variable costs as a target. In all cases, the objective is to set tariffs equivalent to the costs related to carrying the specified traffic. While such a policy is an appropriate starting point for rationalizing tariffs, financial self-sufficiency, towards which these projects aspire, may require some form of discriminatory pricing. Guidance will be needed to better organize commercial policy and to ascertain price and service elasticities of demand as a basis for possible discriminatory pricing.

3.07 The treatment of cost recovery in the case of 'non-enterprise' transport infrastructure, for which indirect user fees as opposed to direct charges are applied, reveals many similarities to the observations made above but also illustrates major areas where analytical procedures and definitions need clarification. Roads are the primary focus of these analyses and references to cost recovery are made in each project in varying levels of detail. Generally, the reports conclude that user fees through road-related taxation more than cover existing and required expenditures. Fuel taxes are the main source but fuel prices are only provided in five of the SARs. As with transport enterprises, the conclusion is that the structure of road user fees is inappropriate such that heavy commercial vehicles do not pay the proportion of road costs attributable to their use. Again the definition of 'attributable' is not apparent in every case. The Guatemala-Secondary and Regional Road Rehabilitation Project provides details such that short term costs are equivalent to routine and periodic maintenance, less 35-45 percent for weather-related deterioration, and long-term costs incorporate rehabilitation costs. Trucks pay short-term instead of long-term costs. In Hungary, trucks paid 15-20 percent of attributable costs prior to a recent increase of diesel taxes. Most of the projects call for further study (Hungary, Uruguay, India, Guatemala and Gabon) while the Korea-Road Improvement SAR makes reference to the recommendations of a previous study being under review by Government. The Thailand-Highway Sector II SAR refers to a five year phase in plan for taxing heavy vehicles. There

appears to be a hesitation on the Bank's part to include these considerations in loan conditionality, contrary to the approach being taken with regard to transport enterprises.

3.08 There is clearly a need for guidance on standard parameters, analytical procedures and appropriate targets to be applied in road user charge studies which would strengthen the dialogue on this issue and hopefully would save consultant costs in the endless number of studies being undertaken with little tangible results. Target cost coverage has been limited to some portion of maintenance costs and the financing issue which would result has not been addressed. Calculations of congestion costs are notably absent. It is also not clear how interurban costs and revenues are separated from urban. It would be more useful to look at road user charges from both the urban and interurban perspective before declaring that charges are sufficient. A partial prescription may lead to conflicts between urban project objectives and interurban projects.

3.09 While user fees are considered adequate in the aggregate, most countries do not allocate funds to transport, and alternative user charge instruments and earmarking are prescribed. The Provincial Transport projects in China, as an exception, follow a balanced budget approach with an earmarked charge on public truck revenues and on own account trucks. In the context of the Road Improvement Project, a draft law was prepared establishing a special account for highways to cover 60 percent of highway needs. Tax receipts, loan funds and bond revenues will be deposited in the account. Lastly, the Chad-SECAL SAR calls for the establishment of a road fund with earmarked fuel taxes as the main source. The project also supports improvements in the collection of fuel taxes as a means of increasing revenues with the understanding that further increases in the tax itself will not be effective and will promote further smuggling from border countries. Fuel prices are already at $3.50 and $3.25 per gallon for regular gasoline and diesel, respectively. Tolls are discussed to some extent in the SARs for the Thailand-Highway Sector II and in the China-Shandong Provincial Highway projects. In Thailand, the attempt to build private toll roads has been difficult due to excessive risk protection requirements by the private sector. In Shandong, if tolls are to be applied, it is agreed that the toll level should not exceed 30 percent of the savings in vehicle operating costs in order to minimize uneconomic traffic diversion. The Bolivia-Export Corridors SAR suggests that the Government consider lifting tolls on national highways and consider raising fuel taxes because of the serious evasion and leakage and the high user cost in terms of waiting times at toll booths (estimated to be twice the amount collected from tolls). At the Bank sponsored symposium on Earmarking and Toll Roads in FY89, a number of papers were presented illustrating the successes and failures of such schemes, and related advantages and disadvantages. It is not apparent, however, that such lessons have been taken into consideration in the present project cohort.

3.10 One of the broader initiatives in infrastructure cost recovery was the Tanzania-Transport Sector Review which looked at improving the financial performance and cost recovery and increasing revenue mobiliza-

tion to ensure adequate resources could be allocated to support road maintenance and rehabilitation. The review developed an analytical framework for examining sector expenditure patterns, identified the main causes of weak performance, recommended solutions to correct inefficient revenue administration and poor controls over expenditures, and developed a financing plan to ensure that roads are maintained in the longer term. The Africa Region is extending this analysis to other countries. Moreover, PPR has initiated a series of background papers and research leading to a policy paper on the pricing issue, especially as it relates to the institutional performance of agencies responsible for transport infrastructure.

B. Commercial and Operational Management of Transport Enterprises.

3.11 The FY89 portfolio applied a wide range of reform instruments in an attempt to redress the historically poor performance of the institutional aspects of transport lending. From 'contrat-plans' over decentralization and privatization to simply eliminating non-remunerative services and facilities, Bank efforts have taken a more aggressive stance on enterprise inefficiency, based on the presumption that an enhanced commercial outlook by transport operators is a key factor in establishing accountability and thus improving production efficiency. Contractual agreements between governments and parastatal agencies were applied in the Zaire and Bolivia projects. In Zaire, a condition of effectiveness was the issuance of a 'Contrat-Programme' for ONATRA and SNCZ which would cover a period of three years and define financial and operational performance measures, staffing policies, marketing and investment objectives on the part of the parastatals and debt restructuring, compensation for unprofitable services, and tariff policies on the part of the Government. More detailed action plans and corporate plans further delineate how to meet the stated objectives. Decentralization of ONATRA's services to better delineate cost and profit centers and the divestiture of unprofitable services is also called for. Similarly, the Bolivia project calls for a performance agreement between the Government and the railway (ENFE) as a condition of first disbursement covering the obligations of each over a period of two years and providing for commercial autonomy and responsibility by the parastatal.

3.12 A number of Bank projects are attempting to stimulate private competition as a means of pressuring parastatals to improve efficiency. In Ethiopia, lending to competing private truckers will be provided in parallel with the state trucking company, EFTC. In Hungary, action is being taken to recognize private operators in urban transport. And in Zaire, ONATRA will open the port of Kinshasa to private operators. Going one step further is the Chad-SECAL which has proceeded to eliminate the state trucking monopoly of CTT with its liquidation as a condition of first tranche release.

3.13 Labor redundancy arises as a major issue in a number of the projects. The Uganda-Railways I SAR includes actions to remove redundant workers, restrict recruitment and abolish non-essential positions. Yugoslavia railways agreed to reduce staff by two percent annually over the next four years (as well as close 168 freight services and stations). The Zaire project calls for ONATRA to reduce staff by 2,000 (of a total of 18,300) as a condition for disbursement of US$1.5 million IDA funds into a retirement account. A similar condition is included in the case of SNCZ. Other measures are designed to improve incentives to existing staff and enhance technical capabilities. This project raised an issue for the Bank on whether or not loan funds can be used to finance labor payoffs in redundancy schemes. While no direct cash payment is allowed, the Bank apparently will permit payment in terms of giving productive assets to the employees. Bank guidelines and policy are required on this issue which is a key element in many transport projects.

3.14 Due to the political sensitivity of the enterprise reform issue in many countries, actions are often taken outside of any specific lending. This occurred recently in the case of Uruguay, where the Government and the railways entered into a performance-contract calling for a major reorganization and downsizing of the railway. In the first year passenger and parcel services were eliminated and over 4,000 staff were declared redundant (of a total of 9,100). No one was fired but redundant staff were offered jobs in other agencies with over half ending with higher salaries than on the railways. The railway is now directing its attention to handling freight on a commercial basis with deregulated tariffs, a reduced network, a new corporate organization and revised work rules for labor. Bank financed studies and sector work as well as the EDI sponsored High Level Policy Seminar in Punta del Este played a role in this effort. A case study report is currently under preparation. Similarly, in Mexico, following recent Bank sector work activities, and project preparation work, a vast deregulation of Mexican trucking has been launched without any relation to a specific project. Both examples point to the importance of Bank policy dialogue, independent from specific project activities.

3.15 Considering the extent of such reforms and the projection of more to come, it is important to monitor the results and to improve the understanding of the dynamics of transition phases in these reforms. In the Chile-Urban Streets and Transport SAR, one annex describes the experience of bus deregulation in Santiago. While finding the results of deregulation to be positive overall in that service expanded dramatically, issues are raised concerning the anti-competitive practices of cartels which do not permit varying fares on a route and the level of congestion which has arisen as a result of inadequate urban road pricing. The Urban Transport Enterprises Study for Morocco analyzes the impact of allowing private urban transport operators to compete with municipal operators. Again, a generally positive conclusion is reached with some regulatory fine-tuning required. In this respect, attention is directed at the impact on low income passengers and whether the municipal companies, the private companies or some mixture should provide 'social' services. The recommendations vary by city, based on the success or failure of the corresponding municipal transport companies. These lessons will be

important for designing reforms in other countries and the experience should help persuade reluctant officials.

C. Management and Maintenance of Highways

3.16 The FY89 cohort of highway projects displays a considerable flexibility in project design to meet the specific road transport requirements of borrowers, within the policy framework articulated by the Bank Policy Study on Road Deterioration in Developing Countries, which was published in 1988. In an increasing number of operations, particularly in the LAC region, the project scope encompasses the entire road system. The key project objective is to improve the condition and serviceability of the road network in terms of well-defined and quantifiable targets, beyond the physical outputs of the maintenance programs. The Bolivia-Export Corridors Project exemplifies this approach. The primary objective of the project is to improve the trade corridors of this land-locked country but the project equally aims at system-wide road maintenance improvements. The Guatemala and Uruguay projects are the only operations in the FY89 portfolio that seriously address the institutional and operational problems of rural roads maintenance. The preoccupation with preserving and improving the main road networks has tended to deflect the Bank's attention from the issues of rural transport and provision of basic road access to rural areas.

3.17 Last year's operations point to a distinct regional differentiation in the scope and content of highway projects. The primary emphasis in Asia is on capacity enhancement of main road networks and improvements in institutional efficiency and road safety. In China and India, for example, the main project focus is on modernization of the road systems at the provincial or state levels and introduction of more efficient road technologies and management systems. These projects serve as the foundation blocks on which to build a modern road organization. The proposed study for the organizational review of Maharashtra's Public Works Department in the India-State Roads I Project should be carefully monitored, as the findings and recommendations of this study could have far-reaching implications and lessons for district road administrations in South Asian countries as well as other countries with multi-tier road administrations. The projects in Korea and Thailand respond mainly to the investment needs of sophisticated highway borrowers with a long operational relationship with the Bank. The highway organizations in these countries are technically capable, well-managed, and efficiently run. They require Bank institutional assistance mostly to adapt new technologies (e.g. maintenance/pavement management) to their specific circumstances or to incorporate emerging concerns like safety and environment in their planning and operational work.

3.18 In LAC and Africa regions, on the other hand, the primary concern of Bank highway lending is with road rehabilitation and maintenance with a strong emphasis on establishing appropriate management structure.

and systems. Much of the main road system is in place in these regions, with reasonable capacity to meet road transport demand well into the 1990's. The LAC seminars on road maintenance and related highway management workshops, targeted at decision-makers and senior highway officials in regional countries, have helped to foster a maintenance culture in the highway sector in these countries and the recent Bank projects in LAC reflect the heightened concern with preserving past road investments and efficient management of limited road maintenance resources. Similarly, in the Africa region, the Road Maintenance Initiative (RMI), under SSATP, has opened a new chapter in the Bank dialogue on road maintenance with its sub-Saharan borrowers. In the recent series of road maintenance policy seminars, supported by ECA and bilateral donors, an attempt was made to establish a closer identity of views on road maintenance issues between the ministries of planning and finance and the highway agencies. These seminars were successful but substantial strengthening of the Bank pipeline of road maintenance projects is required if RMI is to have a more lasting impact. The two FY89 road maintenance initiatives under the Chad and Gabon projects constitute too weak a response to the road maintenance challenge in sub-Saharan Africa. EMENA had only one project with substantial highway focus during FY89 (Hungary-Transport II), hence, it is difficult to assess the emerging trends in highway lending in this region.

3.19 There are two important developments emerging from the FY89 cohort of highway operations; they provide new directions and challenges for the design of future Bank-supported highway projects. Firstly, road safety has emerged as a major concern in almost all FY89 highway operations in the Asia region. The most significant effort is reflected in the Korea project where the Government has declared reduction in road accidents as a priority objective. In China and India, safety elements have been incorporated in road design and operations. For road safety measures to succeed, it is necessary to incorporate safety elements in all aspects of Bank highway operations, starting from safety-conscious road design to safety-oriented operation and maintenance of the highway system.

3.20 Secondly, there are the aspects of management systems. Nearly all highway operations in the FY89 portfolio included the introduction or strengthening of management systems to support the operation and maintenance of the highway network. Monitoring and assessment of road conditions is becoming an essential element of highway maintenance components, while provision of road maintenance equipment is conditioned to the operation of an equipment management system. The main objective of these management systems is to foster a greater sense of accountability in the highway agencies and to make cost-effective use of increasingly-constrained financial resources. As indicated in the Chile-Urban Streets and Transport Project SAR, a more consistent approach to the evaluation of urban transport infrastructure improvement programs is needed as well as the proper adaptation of various road management systems to the urban environment.

D. Environmental Concerns.

3.21 Growing public awareness and international concern about the environmental impacts of development projects has also sparked much debate within the Bank on how potentially adverse effects of projects on the environment in which they are positioned could be minimized. While there has been a requirement since the early 1980s to stipulate the expected environmental consequences of Bank financed projects in the respective SARs, the references tended to be cursory and often lacked substance. More recently, however, and particularly after the reorganization, the Bank has taken energetic steps to ensure appropriate assessments of the expected environmental effects of lending operations. ENV and INU have taken the lead in preparing guidelines for environmental impact assessments. The research write up in Chapter II describes the transport sector related guidelines which were prepared during FY89.

3.22 The Maritime Sector Assessment (MSA), which was prepared by INUTD in FY89 as a contribution to the proposed Environmental Program for the Mediterranean, established a framework for dealing with environmental impact assessments under regional port projects. MSA also set an agenda for possible projects to improve the marine environment in this regional sea. The design of the Third Ports Project in Algeria, which includes effective environmental protection measures, demonstrates the usefulness of such broad regional guidelines. Reference is also made to environmental considerations under highway projects which were appraised during the fiscal year. A serious effort has been made in a number of these lending operations (e.g. in Guatemala, Thailand, Chile) to involve the governments' environmental agencies in the assessment and monitoring of highway projects.

3.23 Overall, however, the observation has to be made that most of the projects appraised during FY89 have only limited reference to environmental concerns. This is an issue which requires special attention. It will be particularly the Environmental Divisions in the regional TDs who should scrutinize proposed transport lending operations with regard to appropriate treatment of environmental issues early on in the project preparation cycle.

E. Trade Logistics Management

3.24 Effective links between industry, trade and transport have become increasingly important criteria in the organization and management of production processes, import and export flows, and sales arrangements. Inventory reduction is generally considered to represent a major potential for reducing the costs of traded commodities. Consequently, there is a forceful drive within international trading circles to minimize stocks required for production or sales. This trend has led to 'just-in-time' delivery requirements. The providers of trade related transport services

worldwide have made swift moves to meet the changing shipper requirements more efficiently. In the wake of these developments, fundamental restructuring in transport networks continues to take place. Unprecedented advances in transport, cargo packaging and handling, as well as communication technologies have served to facilitate the reorganization of trade logistics systems.

3.25 Changing shipper practices and restructuring of service networks have far-reaching implications for developing countries. Foreign trade partners require local transport arrangements which are responsive to their new distribution logistics arrangements. Transport operators, in turn, are dependent on efficient infrastructure to meet the shippers' changing requirements effectively. In most developing countries, these conditions are not met. Deficient infrastructure, outmoded regulations and heavy-handed involvement by the public administration -especially customs- tend to undermine the competitive position of these countries' commodities in world markets. Thus there is a real danger that economic development may be impeded by reduced trade performance. In most borrowing countries major reforms of the regulatory, institutional and managerial frameworks are called for in order to contain trade deterioration due to inefficient local logistics networks.

3.26 Several sector work tasks which were carried out during FY89 demonstrate growing awareness among Bank staff of the danger that lies in inefficient transport systems in developing countries as regards trade performance and competitiveness. The Corridor Studies in Africa and Mexico address this issue. The market analyses carried out in India, Indonesia and Zaire had the objective to determine the effects of poor logistics networks and cumbersome transport service arrangements on trade performance. The sector work in Hungary, Pakistan and Poland dealt with the same issues in the context of assessing transport sector adjustment needs. Two of the FY89 lending operations (Bolivia-Export Corridors, Ethiopia-Transport) tackle required improvements to local transport systems in support of trade development objectives.

3.27 The necessary reform and system adjustment processes entail broad market analyses and require substantial understanding of the underlying forces which cause the constant changes in shipper practices and in the structure and organization of the transport industries that serve the trade markets. Considerable experience in going about such efforts is therefore required. As is the case elsewhere, the Bank's ability to address these issues effectively is still limited. In response to this need, INUTD and other PPR units have put major emphasis in their work programs on analyzing related market developments and on drawing up operational guidelines. The outcome of much of this work will be disseminated during FY90. The Trade Logistics Workshop of March served to promote professional dialogue among Bank staff on issues related to the interdependence of trade and transport. Frequent follow-up along these lines should be considered.

IV. TRANSPORT SECTOR LENDING: THE EXPERIENCE WITH HIGHWAYS

4.01 The concept of sector lending, a progression from project specific lending, was introduced in the mid 1970s, with the objective to broaden the Bank's developmental impact, to provide borrowers with more flexibility enabling larger commitments and faster disbursements, and increasing Bank staff productivity. Sector lending was considered for countries with satisfactory sector investment programs, institutions with proven implementation capabilities and where agreements on required reforms to improve policies and administration had been reached. Policy reforms became one of the justifications for such lending. Loans were still disbursed for subprojects which met agreed criteria and which could be identified after loan approval during Bank reviews of investment programs and its assistance to borrowers in their preparation. Sector adjustment lending, the latest instrument introduced in FY89 (Chad-Transport SECAL), supports more comprehensive policy and institutional reforms. Agencies involved tend to be at a higher policy level than the traditional sector institutions. In transport, the sector lending approach was not new. Sector-wide coverage was often pursued under railway and road maintenance projects, and many transport projects included covenanted policy objectives. Thus transport projects often had sector loan characteristics. Adjustment lending as such is only beginning as related objectives were pursued under broader operations, such as structural adjustment, and public enterprise reform loans or credits.

A. The Experience Record

4.02 This review draws essentially on the experience with highway subsector loans. Such lending was used early on in the transport sector. With the experience gained, CPN 10.03 of March 1982 indicated that highway subsector lending should be the preferred mode of operations whenever country conditions were appropriate. Conditions were added to the provisions under OMS 1.19 of November 1978 to provide that highway subsector loans should ensure:

* agreement on adequate levels of maintenance expenditures;

* investment and maintenance programs spanning no less than four years;

* agreed physical targets and annual expenditures for expansion, rehabilitation and maintenance of different classes of roads;

* a feasible financing plan;

* effective arrangements for monitoring of program implementation, with the nature and timing of consultations agreed during negotiations;

* the adequacy of policies on road user charges, fuel pricing, vehicle weight limitations, safety regulations, efficiency of road transport services, and of staffing and training programs.

4.03 The question has been asked: 'how successful have these sector type operations been in reaching their objectives?' The answer cannot be conclusive, not the least because the achievement of policy objectives was difficult to monitor. OED found little evidence in its 1987 annual review, that these lending operations improved efficiency of project execution, or strengthened sector management, or enhanced the policy dialogue. The conclusion was that more Bank staff time was needed for sector lending and that better ways had to be found to monitor and supervise the projects and to prevent quick disbursements from undermining the policy dialogue. The FY88 Transport Sector Review further queried the criteria qualifying for sector loans and whether enough attention was given to technical, financial and institutional matters during implementation.

4.04 Case reviews of highway subsector loans are presented in the Annex. Such lending generally developed in countries that had already benefitted from several highway projects --more than ten in some instances. In many instances, however, these borrowers had not fulfilled objectives other than the building of specific roads. The Bank's policy study 'Road Deterioration in Developing Countries' shows, for instance, that despite substantial efforts much remains to be done to improve road network maintenance. It was expected that sector lending would break new ground and thus, it often proceeded with some of the above mentioned conditions not met.

4.05 Nevertheless, the overall assessment of highway subsector lending is positive. In some instances this enabled or even caused the expected advantages to materialize, albeit with delays (e.g. Cote d'Ivoire, Colombia). In other cases it proved premature, even in a few countries where most preconditions appeared to be fulfilled. Under such circumstances implementation record has not been satisfactory. Sector lending did not proceed in some other countries where Bank management adhered more closely to the preconditions and continued the more traditional project approach, without a system-wide dialogue. OED, despite concerns on sector lending expressed in its FY87 annual report, concluded recently after auditing three road projects in Cameroon that 'the current performance of the transport sector is due to the government's lack of commitment to genuine change and to the lack of a coherent program ... Continued assistance on a project-by-project, subsector-by-subsector basis would be counterproductive...'. The following sections discuss the extent to which broad sector lending objectives were met.

4.06 Broadened Development Impact. Sector lending has provided the opportunity to broaden the Bank's development impact. Standard project loans offered less scope for a sustained dialogue on important system-wide matters. They focused on a few specific investments that were reviewed in great detail from various technical perspectives, so that these projects were as good as they possibly could be. This focus gave the Bank its traditional trademark of excellence. While project loans in some countries were successful in achieving major institutional objectives, the general observation is that sector lending represents a clearer intention on the part of the Bank to tackle the transport system as a whole. It has helped to clarify the Bank's role beyond just financing 'good' projects. The impact of a broader project coverage on investments and policies, programs and implementation, and institutions, is discussed below.

4.07 Investment Programming and Evaluation. Sector loans, by including investment programs, both improve investment choices and help to build up local institutions. Sector loans require discussion of, and agreement up-front on technical standards, evaluation methodologies and procedures applicable to investments over a program period, and allow a continuous dialogue on their application and required revisions. Many loans require application of agreed criteria not only to specific sub-projects they may finance but to all sub-projects in the investment program, as a basis for selecting standards and priorities. An increasing number of operations include the expenditure program, rather than the investment program, seeking to improve road maintenance allocations as well. While more projects are analyzed in the early stages of sector lending, overall economic evaluations seem to be weaker than those for Bank-financed projects. The set of alternatives analyzed may be smaller. Adopted standards may be less than optimal, and if so, normally biased towards premature capacity additions. But the cost-benefit analyses based on agreed criteria limit the extent of excessive capacity that can be justified, and resource availability usually limits what can be financed. Project choices were generally correct. While top priority projects are not always undertaken first, overall, investment programs seem to have improved over time. In countries with more resources available, programs occasionally included doubtful and high cost 'politically motivated' projects. Bank staff focused on the controversial projects and the dialogue has frequently resulted in their postponement. Whereas project loans normally focussed on the 'white elephants' when rationalizing the non-Bank financed investment program, sector lending facilitated the discussion of marginal projects that have significant cumulative impact, and that can be improved by, for instance, reducing the number of lanes or adopting stage-construction.

4.08 Not surprisingly, sector loans are more effective the higher the Bank's leverage. Sector loans, normally between US$ 30 million and US$ 200 million, financed between six percent and 20 percent of the highway programs. They have not been able to rationalize investment programs that have broadly available funding. In such cases, the relatively small Bank contribution generally had little leverage. At the other extreme, in the poorer countries particularly in Africa, where the Bank and cofinan-

ciers covered up to 95 percent of the costs of agreed expenditure programs, including maintenance, the program was scaled down to match available resources, and each project in the program has been selected on the basis of detailed studies.

4.09 Some aspects of expenditure reviews remain to be improved, not only in the transport sector but also in the context of public expenditure reviews and structural adjustment loans. They include:

* extra-budgetary financing which is often found by governments for some of the less economic projects that are not covered by the investment program or its reviews;

* decentralized expenditure programs, an important share of the sector program in some countries, which are often not reviewed or not even available;

* physical work programs which are seldom prepared as would be needed to establish consistency among implementation options, the investment program and annual budgets; likewise, multi-annual budgeting to ensure continuity in financing of ongoing works is rarely the practice.

* adequate expenditure levels in the sector which remain to be defined.

4.10 While the program concept clearly broadened the Bank's development impact, it is unclear whether the annual expenditure reviews were carried out effectively, due to Bank staff time constraints. Also, it is questionable whether the reviews prompted the desired response by governments. The problem is especially serious with Bank staff changes. In large countries with extensive programs, the knowledge and understanding of a program by Bank staff frequently requires several years of accumulated experience, which is difficult to standardize and to store in the Bank's institutional memory.

4.11 Implementing Sector Loans. Sector loans may finance only a few projects of the program, but also, as in the case of Latin American countries, they may finance more than a 100 small projects procured under local competitive bidding. Bank-financed projects seem to have a better implementation record than the rest. Their range of expected economic rates of return is similar to that of standard Bank projects; ex-post rates tend to be similar to the originally calculated rates. Cost variation occur frequently, but are not worse than under standard projects. Project implementation periods tend to be similar for projects and sector loans, in the four to seven years range. Bank staff still inspect some works in detail, as under standard projects, and work quality seems to be of similar standards. Thus, the fear that sector lending would result in a substantial decline in quality is largely unwarranted.

4.12 Works not financed by the Bank tend to have higher costs and longer implementation periods than foreseen, mostly because of poorer project preparation and financing shortages, resulting in expensive work stoppages. The quality of works may be poorer; more domestic and less experienced contractors are generally involved, and less adequate supervision may be another cause. It is difficult, however, to infer that this is better or worse than without sector lending. Procurement practices and contract coverage constitute main causes for high unit costs and ineligibility for Bank financing in many countries. An adequate procurement system is a precondition to proceed with sector lending that is often not fulfilled; still, only procurement for Bank financed works has to be acceptable to the Bank.

4.13 Sector Policies. Perhaps the nature of the instrument is less important than the increased emphasis on policies pursued by the Bank. But policies concerning aspects other than investments are also discussed more effectively during preparation and implementation of sector loans than project loans. The dialogue for sector loans has raised the awareness of the importance of policy improvements, even if the improvements remained elusive. More people realize that benefits can be obtained through policy reforms, even without public expenditures. However, the dialogue has probably not been as effective as it could be.

4.14 Under highway subsector lending the Bank has for the most part continued to deal with the same agencies as under project lending. Some of the required reforms transcend the sector and require not only involvement but also commitment by higher level national policy agencies or other agencies interested in the reforms. For instance, a ministry of finance may change road user charges, a ministry of trade may be effective in pursuing trucking deregulation, reforms that a ministry of transport could or would not carry out. Adjustment lending has broadened the dialogue to include other appropriate agencies.

4.15 Policy reforms sought through sector lending have tended to lack focus and clear priorities. In addition to improved investment selection criteria and increased road maintenance allocations, most highway subsector loans seek to improve the road user charge system, to improve funding mechanisms for maintenance, to shift works from force accounts to contractors, to improve or privatize government-owned bus and trucking companies, to deregulate the provision of public transport services, to rationalize the civil service, and to change axle-load regulations. Some sector loans included action programs listing no less than 70 conditions, in turn implying further actions. The levels of the measures span the whole spectrum from broad policy objectives, such as adequate road maintenance funding, to details of implementation, such as a specific tax increase at a given date. Governments could then comply with some of the less difficult, normally less important steps, like engaging consultants. Action programs are nevertheless a considerable improvement over traditional covenants seeking policy reforms, that were largely innocuous, sometimes limited to requesting a study, and sometimes even including successive studies on the same topic in successive projects, without any action taken on the previous study conclusions.

4.16 Transport sector lending operations need better coordination to avoid conditionality 'crowding out' in a country. Most of the countries that had transport sector loans also had program type loans, at about the same time. Transport sector related reform is rarely a priority in adjustment or program loans; overlapping has occurred almost exclusively in programs for Sub-Saharan countries where transport related problems had serious fiscal implications, for instance low fuel taxes or railway deficits. The macro-economic conditionality, correctly so, takes priority over other conditionality and cannot but be selective; that conditionality lessens government priority attached to other, sector related conditionality. The Bank has on occasion advised a government simultaneously to reduce recurrent expenditures and to increase road maintenance expenditures -this, of course, does not need to be inconsistent but requires detailed analyses and discussions with a government. The 'macro team' of the Bank sometimes considers some desirable sector reforms to be too sensitive politically (for instance, those involving labor issues or subsidies) to mention in their discussions, while the sector staff is still expected to discuss these. Fungibility of funds across sectors is promoted by different stringency of conditions attached to loans and different views as to what is needed for conditionality compliance, in the various sectors. Thus, sector loan funds are not used nor reforms achieved, however well prepared the related loans are, because of the convenience of other Bank loans.

4.17 Institution Building. In the 1970s the Bank assisted agencies in becoming self-sufficient, even in establishing maintenance management capabilities. In the 1980s the focus was increasingly on management, policies, programming and on supporting the private sector to take over the execution of works and provision of services. Bank interventions have shifted primarily to an upstream, higher level; the technical dialogue does not seem to be weaker, but different. Considering technical aspects, discussions centered on appropriate road design standards for a country instead of those for one road project, or on road maintenance strategies instead of a specific maintenance action often recommended by consultants. On the economic side, discussions focused on appropriate methodologies and their rationale, on policies with country-wide implications, such as regulations or the correct setting of road user charges, instead of on the cost-benefit analysis of a particular project, usually prepared by consultants. The objective was to establish sound decision-making principles as compared with the earlier orientation of perfecting the investment analysis of a small number of projects.

4.18 Broad adoption of improved processes, standards and strategies may be slow. Project preparation quality may be lessened initially, as reliance on consultants decreases, but the longer term institutional benefits appeared to outweigh these costs and delays. Consultants can still be employed for training of ministerial staff, supervision of contractors and other tasks. Policy measures are more supported by officials who have gone through the analyses than by officials simply receiving advice.

4.19 Lending amounts and Disbursements. As can be expected, the size of transport sector loans has typically exceeded the amounts of preceding project loans. The difference has been up to three times the amount of traditional project loans in the same country. In some Latin American countries, highway subsector loans for up to US$ 200 million were equivalent to between 5 percent and 15 percent of the highway investment program they supported. In Sub- Sahara African countries, the Bank's sector loans -smaller, some not more than US$ 30 million- have represented more than 20 percent of the road investment program, with an even larger impact as they were usually instrumental in reducing the investment program and in mobilizing cofinancing. In smaller countries, and more recently, sector loans have become multimodal in orientation. One lending operation covered what usually took three or more projects in the areas of ports, highways, railways, civil aviation and others; this also increased loan amounts and cofinancing.

4.20 Disbursements under sector lending have not been as fast as expected. Still, annual disbursement averages under sector loans were generally higher than under project loans in the same country. Disbursement periods tended to be shorter, though in some cases just marginally. Delays in effectiveness and until the first disbursement is made were similar under both types of projects. Disbursements have normally been faster the first year of second of subsequent sector loans in a country, when sector loans can provide retroactive or continued financing for works started under the previous sector loan. These are the only instances of genuine time slice financing as was foreseen under sector lending. Factors that caused disbursement delays included:

* Standard procurement rules in most countries are not acceptable for Bank financing. Thus, the Bank can rarely finance a percentage, say 10 percent, of every expenditure under the investment program that constitutes 'the program' under the sector loan. Instead, some projects are singled out to follow Bank procurement rules to be financed at a higher disbursement rate, say 50 percent but on occasion not higher than 30 percent, over the full implementation period. Bank rules and conditions on occasion reduced public work officials interest in resorting to Bank financing.

* Projects financed under a sector loan were often not identified early on. At negotiations only the projects to be started during the first year were agreed. The flexibility allowed for later selection of future year, Bank-financed projects --considered to be a main advantage of sector lending-- seems to be unnecessary and actually, to be a disadvantage as it results in delays. Only after selection, are Bank procurement procedures initiated.

* Structural adjustment loans or generally, balance of payment support, that convey significant amounts in foreign exchange, and domestic earmarking systems, can 'crowd-out' sector loan proceeds. They reduce the need for foreign exchange under other loans and may release an equivalent amount in domestic currency. Only domestic currency is needed to pay for civil works in countries with a well developed domestic contracting industry, and easier, local procurement procedures can be followed.

4.21 Economies in Bank Staff Time. While staff input per dollar lent seems to have decreased with sector lending, a sample of staff time records for projects approved since FY82 provided no evidence that sector loans were less staff-intensive than project loans, as was initially expected. It is difficult to separate 'noise' in the statistics: preparation and appraisal time tended to decrease the longer the Bank's involvement in a country. Overheads per project (such as mission travel and sector work) decreased with the number of projects and large countries had more projects than small ones. Supervision effort were usually considerable during the initial phases but often decreased in subsequent years. Sector loans were normally implemented in parallel with other transport projects in countries well known to the Bank; nevertheless a few observations on their staff cost can be derived from the sample data.

4.22 Annual transport staff intensity varied over time, partly reflecting stages reached in project cycles. If only because of their size, large countries tended to receive more lending and also more staff input. Among countries with sector loans, Brazil and Mexico have had up to 250 staff weeks in one year; Colombia, 200; but in other years, only about 100 staff weeks. The range of staff effort was similar in Asian countries and lower in Africa, where the upper limit was some 150 staff weeks one year (Ghana), and the lower limit, less than 50 staff weeks. While the effort appears to have been adequate, perhaps even excessive, in large countries, there are indications that it was less adequate in smaller countries. Their problems are however equally complex, the institutions are less mature, and projects have become more comprehensive. On the other hand, small countries have less absorptive capacity for Bank missions, so that selectivity is required in discussions with officials.

4.23 Economists' time for advice expanded while that for cost-benefit analyses and audits decreased. Engineers' time for discussing broader technical matters increased also. However, engineers assigned to large Latin American countries where there are many and relatively small projects in the investment program, spent much time in reviewing contracts for Bank financing eligibility and subsequent disbursement requests. In Colombia at one time 160 contracts were being followed under one loan; in Mexico, some 100 contracts were reviewed and only a few found eligible. Less time was left for field trips to inspect proposed projects or ongoing works.

4.24 Monitoring. While project definition and objectives sought through lending have changed, and supervision efforts were adapted,

performance indicators and supervision forms used in reporting progress largely remain the same and are not very informative on sector lending. Performance indicators focus on loan amounts disbursed. A project is considered as delayed when disbursements lag behind estimates, and as completed when the loan has been fully disbursed. Data do not allow to link disbursements to physical progress of works, even less so with contracts financed under successive loans, in time slices. The closer scrutiny of costs and unit costs done under project loans becomes erratic or uncertain under sector loans. However, as subproject cost estimates in investment programs are generally less accurate than those in project loans, it is not very relevant to compare actual costs with an initial unreliable estimate in the program. Generally, no reporting is made on subprojects not financed by the Bank. Even though policy reform may be the more important objective of the operation, the current page on compliance with loan covenants in supervision reports is rather uninformative; the 'being complied with' statement is usually of little informative value. Progress on broad gauged reforms is difficult to ascertain; even progress achieved through specified detailed actions may not be clear.

B. Suggestions for Improving Sector Lending

4.25 The Bank has been imaginative in finding new ways to enhance its effectiveness, but, based on the above review, the design and implementation of transport sector loans could be further improved. The number of projects per country and sector that the Bank can process is limited, so that the desired frequency and mix of lending instruments, strictly defined, may not be feasible. Thus, the distinction between lending instruments will remain blurred. Other than that sector loans normally following a series of project loans, there is no unique progression in type of lending instrument. The importance of what lending instrument is chosen becomes marginal, and what matters, is to clearly define the relative priorities among objectives.

4.26 Bank Country Strategy. To avoid 'crowding-out', increased internal Bank coordination including a better, more consistent fit of sector strategy with that of other sectors and the country-wide strategy followed for all Bank lending may help pursue only the most important objectives; to ascertain commitment to those objectives and readiness to act in the country; to identify the appropriate agencies to deal with regarding the problems selected for discussion. This internal coordination may require ignoring traditional sectoral boundaries established in the Bank. Decisions should also take into account the relative importance of the Bank's presence in the sector. The Bank should be more willing to act upon default and also to recognize where lending is not justified. The underlying idea should be to reward the good performers.

4.27 Sector Lending Preconditions. The OMS preconditions have been followed flexibly and should remain indicative. Some suggestions on their interpretation:

* The 'adequate sector institutions' precondition should perhaps be somewhat refocused on 'people'. Failure or success seem to have depended the most on the conviction or lack thereof of key managers in charge of the importance of the objectives pursued, and less on technical or administrative abilities. Uncertainties of management reorientation can hardly be avoided, but the 'appropriate' orientation should prevail at the time of the decision to proceed with sector lending.

* The 'good investment program' precondition should be expanded to include the expenditure program, to improve maintenance versus capital allocations and not distort funding choices. Physical work programming to match investment programming and budgeting, should be introduced where necessary. Extra-budgetary items or decentralized budgets should also be reviewed.

* The 'adequate procurement and disbursement procedures' precondition should be converted into a sector lending objective. Sector or even country-wide prototype procurement documents should be developed where existing procedures are found to be inadequate. The Bank's continued role in this respect should be to help introducing procurement arrangements which yield optimal benefits to a country and which are in line with international 'good practice'.

* The 'agreement on policy and institutional measures' precondition should remain, and implementation be reinforced with appropriate lending incentives, as discussed below.

4.28 Objectives and Conditionality. No sector loan can realistically be expected to achieve all the reforms needed in the sector, and which makes it all the more important to identify the key reforms and their introduction sequence. The Bank should establish long-term strategies with a succession of objectives over time, knowing that a series of loans will be made, and make each loan conditional on a different set of objectives. Objectives should be clear and stated at a relatively high policy level, in terms of processes or criteria with lasting effect rather than in terms of discrete actions, but with a specific action plan to introduce the processes (e.g. ad-valorem rather than specific taxes; prototype bidding documents rather than documents for a specific contract). Ac-

count should be taken of the fact that officials tend to understand much better covenants stated in terms of specific and simple actions than those stated in terms of policy objectives.

4.29 Front-end loading has been effective but steps required after the loan is approved are sometimes not taken. Annual tranches that can either be released or cancelled can be effective only if the threat of cancellation is meaningful. On the other hand, governments have taken steps required for appraisal, negotiations, board presentation and loan effectiveness, even if sometimes with delays. Series of annual highway subsector loans can limit covenants mostly to project execution matters, and make monitoring considerably easier, as in Thailand. Lending with annual approvals of agreed supplementary financing, conditional on certain actions being taken -similar to tranching but without the commitment fees- may also enhance effectiveness. These options would avoid the confusing overlapping of policy related covenants that occurs when several projects in one sector are being implemented simultaneously. They would also reduce commitment fees, avoid the need for eventual loan cancellations, and in particular, give more weight to dated, required changes, and prevent quick disbursements from undermining conditionality. Monitoring would be much easier. The disadvantage consists largely of increasing legal work, or perhaps, a need for slight changes Board procedures.

4.30 Implementation. The experience record with implementing transport sector loans suggests the need for some procedural improvements, as follows:

* if the Bank finances specific subprojects, disbursement rates should be fixed relatively high, to make Bank financing attractive; by negotiations or soon thereafter even those new construction subprojects to be started in future years should be identified, to accelerate their implementation. This should be easy since the investment program is agreed at negotiations. Overall budget financing of the executing agency should be tied to progress in implementing a sector loan.

* in order to improve the policy dialogue and the follow-up on project implementation, more staff time may have to be allocated for small countries. The question of appropriate mix of experts may need reviewing.

4.31 Monitoring needs to be improved. Following suggestions are offered:

* Cost monitoring. It is impractical and possibly also inappropriate to apply standard Bank procedures

for monitoring the costs of civil works in sector loans. The loans often deal only with a time slice of the investment, with completion being the ultimate responsibility of the borrower. The financed sections can cover numerous contracts. It is important, however, to help foster such monitoring by governments of other sector investments. Thus, sector loans should strive to develop mechanisms for the responsible agencies. This would also serve Bank purposes for monitoring costs without imposing a separate system of reporting. Such a system should relate to physical execution parameters which are often missing.

* Policy reform monitoring. This is difficult given the often broad objectives provided in the loan documents, especially when there are a multiplicity of conditions. Front-end loading of major reforms simplifies supervision. At least, key policy reforms should be isolated for monitoring if actions are required during the course of the project.

* Annual investment reviews. The quality of the annual investment reviews, and their effectiveness, should be enhanced and required supervision time provided.

4.32 The TDs should actively follow the track record of individual sector lending operations in their regions. The annual ARIS exercises provide a unique instrument for this purpose. Pervasive implementation problems should be identified and remedies be sought to ensure that the objectives under such lending can be achieved to the maximum extent possible.

4.33 The question finally remains: What do borrowers get out of sector lending and do these advantages outweigh the disadvantages? The answer is generally positive, although the main beneficiary at the country level is the ministry of finance which is able to use the Bank as an honest broker to scrutinize and influence the shape and composition of sector expenditure plans. There is also an element of prestige attached to sector lending. Graduation from project to sector lending confirms that the sector agency is technically competent and generally well run. Failure to graduate, on the other hand, implies poor performance and reduces the likelihood of external support. There are nevertheless costs attached to sector lending. The need for more objective project selection criteria, satisfactory to the Bank, reduces the scope for using transport expenditures to advance the domestic political agenda, while the Bank's emphasis on promoting wide-ranging policy reforms as part of sector loans is likely to cause some transitional problems. Overall, however, sector lending does offer positive benefits, particularly over the longer term,

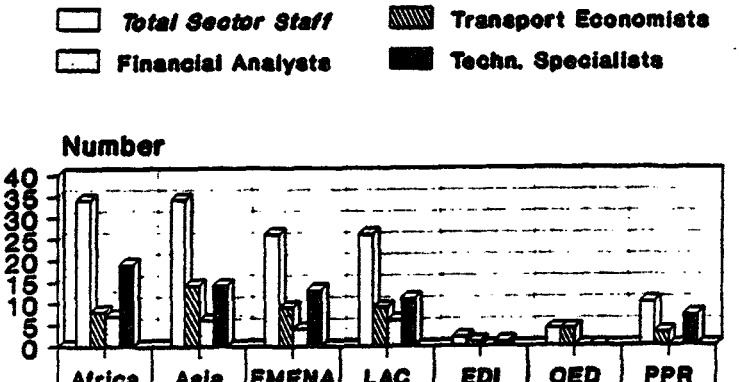
when the advantages of improved planning and operating practices -while painful to introduce initially- start to pay off.

V. STAFF RESOURCES IN TRANSPORT

5.01 The reorganization, together with the shifting emphasis to sector/subsector type lending, has raised the issue of what types of technical skills are required to serve transport lending and sector work initiatives and more directly, what types of professionals should be recruited by the Bank. There are basically two schools of thought within the Bank concerning the implications of a reduction of technical-engineering expertise. It is agreed that there has been a trend developing over the last ten years in which the role of economists, including many whose backgrounds are more akin to transport planners and general engineering, has risen in preparation and supervision responsibility relative to that of the modal engineer. The disagreement is over whether this is a positive trend. One school of thought argues that the types of policy and institutional issues to be addressed require an economic perspective. Moreover, after years and a series of transport loans to an individual country, local expertise, especially with regard to design and to procurement, has improved such that government staff can take on more of the responsibilities for preparation and supervision.

GRAPH 5

Transport Sector Staff Composition
(Status as of June 30,1989)



	Africa	Asia	EMENA	LAC	EDI	OED	PPR
Total Sector Staff	34	34	26	26	2	4	10
Transport Economists	8	14	9	9	1	4	3
Financial Analysts	7	6	4	6	0	0	0
Techn. Specialists	19	14	13	11	1	0	7

Note: Technical Specialists include Engineers.

The other school of thought argues that the technical expertise of the Bank in transport is the institution's trademark and, while the role of the engineer may have changed, the need for the engineer has not. We are dealing increasingly with more sophisticated technical components whether it concerns port operations, locomotive maintenance or pavement management. Even though such issues may take a back seat at present to the broader institutional and policy reforms, this aspect should not be lost and should be of increasing importance in following up on such reforms. Indeed, given the record of the Bank in the institutional and policy areas, it has been the technical area that has achieved consistent success with substantial development impact.

5.02 The following discussion attempts to clarify the situation and to help stimulate internal Bank discussion on this important issue. To propose detailed recommendations is not possible with the information available, and is beyond the scope of this Annual Report. Furthermore, the discussion goes beyond the transport sector into the other hardware sectors and the role of the engineer in the Bank in the medium and longer term. Much of the information was compiled for a PREVP study on the Cost of Doing Business in the Bank, a draft of which is available.

5.03 A review of transport projects since FY81 showed that the cost of lending to the sector, measured in staff-weeks for Bank staff and consultants, has not changed. The staff-weeks expended for the total of preparation, appraisal, negotiation and supervision of a project in FY89 is roughly the same as a project in FY81 with some variation between appraisal and preparation due to changing procedures. Supervision did show a slight upward trend, at least in the earlier years of a project, and this situation should be monitored as the FY87-89 projects progress. It was not possible to break down the data by economist time versus engineering time, but interviews with staff confirmed the tendency to depend more on economists.

5.04 Recruitment policies by the 23 Infrastructure Divisions vary but there appears to be a tendency to replace retiring or transferring engineers with economists or other expertise which crosses sectors, enhancing fungibility within the relatively small divisions created by the reorganization. Thus, in FY89 there were four modal engineers who retired or passed away which did not lead to new recruits. While it is true that about 20 percent of existing transport staff entered the Bank within the last 6 years, only about 5 percent of the transport engineers entered the Bank within that period. One indication of the changing role of the engineer is the increase in the dependence on consultants. Consultant staff-weeks as a percentage of total staff-weeks for project preparation, appraisal, negotiation and supervision hovered between 13-18 percent from FY81-86 and between 19-21 percent from FY87-89. It is apparent that the SOD's look for consultants to provide specialized technical advice as well as using retired Bank engineers for preparation and supervision. The shift is clear and the probability of a further shift is extremely high with over 30 percent of transport related engineers and specialists are due to retire within 6 years compared with 7 percent of infrastructure economists and financial analysts.

TRANSPORTATION

Average Costs (SU) per Project for Preparation, Appraisal, Negotiations

	Preparation				Appraisal				Negotiations				TOTAL			
FY*	All** Transport	Highways	Railways	Ports	All** Transport	Highways	Railways	Ports	All** Transport	Highways	Railways	Ports	All** Transport	Highways	Railways	Ports
81	24	24	28	23	42	40	55	51	9	6	12	5	75	70	95	79
82	32	29	40	31	49	43	63	58	9	6	17	13	90	78	120	102
83	30	20	64	38	41	32	84	56	10	9	27	10	81	61	175	104
84	38	29	47	97	44	37	70	61	9	9	10	11	91	75	127	169
85	56	32	123	66	50	37	61	76	8	6	11	9	114	75	195	151
86	23	16	15	44	31	25	36	47	9	10	6	10	63	51	57	101
87	41	34	53	51	41	28	50	69	10	9	13	10	92	71	116	130
88	45	29	73	57	26	22	27	32	12	11	13	13	83	62	113	102
89	50	30	64	43	28	23	47	23	14	8	13	23	92	61	124	89
Wt. Average 81-86	34	25	52	48	43	36	59	58	9	8	12	10	85	69	123	116
Wt. Average 87-89	45	31	66	52	31	24	38	44	12	10	13	14	88	63	117	110

* FY of loan approval.

** All Transport also includes a few projects not classified by transport mode.

5.05 Although it was not possible to draw conclusions on this issue, one can formulate some initial impressions:

* The high proportion of retirements by engineering and specialist staff in the sector combined with the tendency of SOD's to recruit generalists requires a region by region review of its technical requirements and staffing policies.

* It is apparent that some of the problem is related to the fact that the type of expertise required is hard to recruit into the Bank, i.e. transport professionals with managerial experience, which then leads to the dependence on consultants;

* As the core of technical staff shrinks, it is highly important that the regions coordinate their recruitment of such staff and that there be more fungibility of technical staff time between regions. Procedures to facilitate this are required so that an engineer or specialist in one region with a particular expertise can be used in another region without substantial bureaucratic effort;

* A stronger commitment to training through more adequate budget allocations is needed so that staff can stay abreast of current developments in the field. The dependence on consultants requires staff to be well-informed of the state of the art so that they can recognize when they have a serious technical issue and the type of expertise required; and

* Care must be taken to maintain the Bank's technical integrity in the sector and to sustain its seat at the table of professional organizations and its dialogue vis-a-vis the leadership of the technical ministries in its client countries. Indeed the policy dialogue in transport was built upon the respect gained through its technical dialogue.

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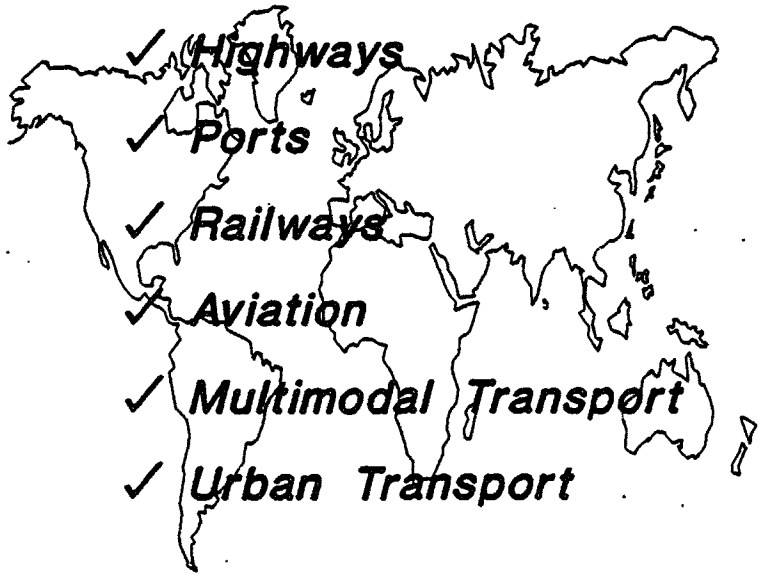
TRANSPORT SECTOR
FY89 ANNUAL REPORT

STATISTICAL ANNEX

TRANSPORT FACTS AND FIGURES

WORLD



- ✓ *Highways*
- ✓ *Ports*
- ✓ *Railways*
- ✓ *Aviation*
- ✓ *Multimodal Transport*
- ✓ *Urban Transport*

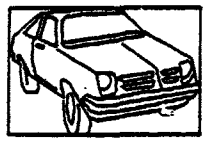
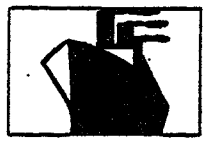
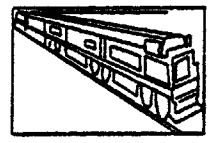
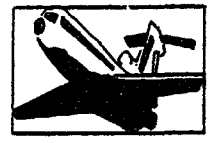





TABLE 1

FY89 DEDICATED TRANSPORT LENDING OPERATIONS

Region	Country	Project	Lending Amount, Type (US$,million)
Africa	Chad	Transport SECAL	60.0 IDA
	Ethiopia	Transport	72.0 IDA
	Gabon	Road Maintenance	30.0 IBRD
	Uganda	Railways I	7.0 IDA
	Zaire	Transport Rehabilitation I	75.0 IDA
Asia	China	Ningbo & Shanghai Ports	76.4 IBRD
		Xiamen Port	36.0 IBRD
		Highways V (Shandong Province)	50.0 IDA
			60.0 IBRD
		Highways VI (Jiangxi Province)	61.0 IDA
		Inner Mongolia Railways	80.0 IDA
			70.0 IBRD
	India	State Roads I	80.0 IDA
			170.0 IBRD
	Korea	Road Improvement	200.0 IBRD
	Nepal	Arun III Access Road	32.8 IDA
	Thailand	Highway Sector II	87.0 IBRD
EMENA	Algeria	Ports III	63.0 IBRD
	Hungary	Transport II	95.0 IBRD
	Yugoslavia	Railways VII	138.0 IBRD
LAC			
	Bolivia	Export Corridors	37.0 IDA
	Chile	Urban Streets & Transport Program	75.0 IBRD
	Guatemala	Secondary/Regional Roads Rehabilit.	31.5 IBRD
	Uruguay	Transport I	80.8 IBRD
Total Lending:			1767.5

Number of Projects: 21

Modal Shares:

Highways	8 = 38%
Ports	3 = 14%
Railways	3 = 14%
Multi-Modal	6 = 29%
Urban Transport	1 = 5%

TABLE 2
Page 1

TRANSPORT RELATED LENDING OPERATIONS
(Scheduled Lending Program FY90-FY93)

A. AFRICA

Country	Project	Lending Amount, Type (US$,million)	FY
Angola	Rehabilitation Credit	80.0 IDA	90L
	Urban Infrastr. Rehabilitation	25.0 IDA	91R
	Transport Sector	30.0 IDA	92R
Benin	Urban	9.5 IDA	92R
Burkina Faso	Urban	21.0 IDA	90L
	Transport SECAL	15.0 IDA	91L
	Public Enterprise	30.0 IDA	93L
Burundi	Transport Sector	51.1 IDA	90L
	Transport Sector II	24.7 IDA	93R
CAR	Transport Sector	9.7 IDA	90R
	Enterpr. Rehab. & Developm.	10.0 IDA	91S
Cameroon	Rural Infrastructure	100.0 IBRD	90R
	Transp. Parastatal Adjustment	80.0 IBRD	93S
Chad	Urban	20.0 IDA	93L
Comoros	Road Maintenance	4.9 IDA	91S
	Multi Sector	12.4 IDA	92R
Congo	Roads Rehabilitation	27.0 IBRD	90L
	Private Sector Development	20.0 IBRD	91R
	Urban	25.0 IBRD	92R
	Transport Sector	30.0 IBRD	93S
Cote D'Ivoire	Municipal Development	66.0 IBRD	90L
	Rural Sector Support	10.0 IBRD	90L
	Urban IV	100.0 IBRD	92R
	Transport SECAL	100.0 IBRD	93S
Djibouti	Urban Development II	4.5 IDA	92R
Eq. Guinea	Infrastructure Rehabilitation	10.0 IDA	93L

TABLE 2
Page 2

Country	Project	Lending Amount, Type (US$,million)	FY
Ethiopia	Integr. Urban/Rural Developm. (Market Towns)	40.0 IDA	90L
	Road Sector III	60.0 IDA	92S
Gabon	Municipal Development	20.0 IBRD	92L
Ghana	Transport Rehabilitation II	50.0 IDA	91L
	Urban II (Sec. Cities)	30.0 IDA	91S
	Feeder Roads	25.0 IDA	92R
	Urban III	35.0 IDA	93S
Guinea	Private Sector Promotion	35.0 IDA	90L
	Second Urban	20.0 IDA	90L
	Nat'l Rural Infrastructure	35.0 IDA	91S
	Urban III	50.0 IDA	93L
	Infrastructure	30.0 IDA	93S
Guinea Bissau	Infrastructure Rehabilitation	22.0 IDA	90L
Kenia	Urban Transport	50.0 IDA	91L
	Ports	20.0 IDA	92L
	Rural Roads	25.6 IDA	93R
Lesotho	Rural Development	10.0 IDA	93R
Madagascar	Tana Plain Development	40.9 IDA	90L
	Transport Sector Development	31.0 IDA	92R
Malawi	Infrastructure I	28.8 IDA	90L
	Urban II	15.0 IDA	92S
Mali	Infrastr./Transport Sector I	10.0 IDA	93S
Mauritius	Highways II	30.0 IBRD	90L
	Infrastructure Environment	10.0 IBRD	92R
Mozambique	Transport Rehabilitation (Beira Corridor)	40.0 IDA	90L
	Road Transport	40.0 IDA	91L
	Urban Rehabilitation II	70.0 IDA	92L
	Urban Services	30.0 IDA	93R
Niger	Transport Sector II	35.0 IDA	92S
	Urban I	20.0 IDA	93S

TABLE 2
Page 3

Country	Project	Lending Amount, Type (US$,million)	FY
Nigeria	Oyo State Urban	21.0 IBRD	
		29.0 IDA	90L
	Roads (Multi State)	125.0 IBRD	91L
	Railway	150.0 IBRD	92R
	Rural Infrastructure	100.0 IBRD	93L
	Lagos Infrastructure	200.0 IBRD	93L
Rwanda	Transport Sector	32.2 IDA	90L
	Public Enterprises	14.7 IDA	91S
	Communal Development	38.3 IDA	92S
Senegal	Public Works & Employment	20.0 IDA	90L
	Transport SECAL	45.0 IDA	91S
	Private Sector	20.0 IDA	93R
Seychelles	Multi Sector	4.9 IDA	92L
Sierra Leone	Highway Rehabilitation	28.5 IDA	92R
Somalia	Infrastructure I	16.0 IDA	91S
	Highways V	16.0 IDA	91R
	Infrastructure II	17.0 IDA	92S
Sudan	Highway Rehabilitation	82.2 IDA	90L
	Ports III	30.0 IDA	91L
	Highways IV	40.0 IDA	93S
	Railways VI	40.0 IDA	93S
Swaziland	Urban I	18.0 IBRD	92L
	Komati Basin Development	50.0 IBRD	92R
Tanzania	Roads I	146.0 IDA	90L
	Port Modernization	30.0 IDA	90L
	Railway Restructuring	45.0 IDA	91R
	Public Sector Management	150.0 IDA	92L
	Urban/Infrastr. Rehabilitation	30.0 IDA	92S
	Roads II	50.0 IDA	93S
Togo	Infrastructure SECAL	15.0 IDA	91R
	Transport Sector	15.0 IDA	92L
Uganda	Infrastructure	64.0 IDA	91S
	Transport Sector Rehabilitation	40.0 IDA	92S
	Area Development	30.0 IDA	93R

TABLE 2
Page 4

Country	Project	Lending Amount, Type (US$,million)	FY
Zaire	Urban I	50.2 IDA	90L
	Transport Sector	98.1 IDA	91L
	Feeder Roads	29.4 IDA	91R
	Infrastructure	50.0 IDA	92L
	Transport Facilities	19.1 IDA	93L
	Kivu Regional Development	66.4 IDA	93R
Zambia	Highways IV	25.0 IDA	91R
	Multi Sector I	80.0 IDA	91R
	Multi Sector II	60.0 IDA	92R
	Railways V	30.0 IDA	92R
	Transport	20.0 IDA	92R
Zimbabwe	Railways II	20.0 IBRD	91S
	Urban Transport	20.0 IBRD	92L
	Community Area Development	30.0 IBRD	93R
	B. ASIA		
Bangladesh	Inland Water Transport	40.0 IDA	91S
	Public Resources Management	150.0 IDA	92S
	Jamuna Bridge	100.0 IDA	92S
	Nat'l Municipal Development	60.0 IDA	93S
Burma	Infrastructure Rehabilitation	45.0 IDA	90L
China	Medium Size Cities	80.8 IDA	
		79.4 IBRD	90L
	Shanghai Transport	58.0 IDA	90L
	Railways V	400.0 IBRD	90L
	Jiangsu Provincial Transport	50.0 IDA	
		100.0 IBRD	90L
	Tianjin Urban	100.0 IDA	91L
	Zhejiang Provincial Highway	240.0 IDA	91L
	Henan Highway	150.0 IBRD	91L
	Jiangsu Transport II	150.0 IBRD	91S
	Railways VI	100.0 IDA	92L
	Anhui Provincial Transport	90.5 IDA	
		150.0 IBRD	92L
	Jiangsu Transport II	150.0 IBRD	92S

TABLE 2
Page 5

Country	Project	Lending Amount, Type (US$,million)	FY
China (cont'd)	Shanghai Port	150.0 IBRD	92S
	Guangdong Provincial Transport	150.0 IBRD	93L
	Inland Waterways	150.0 IBRD	93L
	Railways VII	175.0 IBRD	93L
	Shanghai Urban Infrastructure	25.0 IDA	
		75.0 IBRD	93L
	Highways VII	200.0 IBRD	93S
Fiji	Rural Development	10.0 IBRD	93L
	Transport (Regional)	20.0 IBRD	93S
India	National Highways II	250.0 IBRD	90L
	Karnataka Urban Transport	80.0 IDA	
		70.0 IBRD	90L
	Container Transport	100.0 IBRD	91L
	Kerala Urban	100.0 IDA	91L
	HP Urban Development	100.0 IDA	92S
	Railways Modernization IV	250.0 IBRD	92S
	Maharashtra Urban	100.0 IDA	
		100.0 IBRD	93L
	Port Modernization	200.0 IBRD	93L
	Bombay Urban Transport II	100.0 IDA	93L
	National Highways III	200.0 IBRD	93L
Indonesia	Highway Sector	300.0 IBRD	90L
	East Java/Bali Urban	100.0 IBRD	91L
	Jabotabek Urban Developm. III	60.0 IBRD	91L
	Large Cities Urban	200.0 IBRD	92L
	Urban Sector II	250.0 IBRD	92S
	Irian Jaya Area Development	30.0 IBRD	92S
	Transport I (Maritime)	150.0 IBRD	93L
	Highway Sector II	275.0 IBRD	93S
	Rural Roads III	200.0 IBRD	93S
	Kalimantan Urban Transport	50.0 IBRD	93S
Korea	Urban Land Development II	250.0 IBRD	91L
	Pusan Port	100.0 IBRD	92L
	Expressways	100.0 IBRD	93L
Laos	Highway Improvement	30.0 IDA	91L
Malaysia	Road & Bridge Rehabilitation	101.8 IBRD	90L
	Port Kelang II	60.0 IBRD	91L

TABLE 2
Page 6

Country	Project	Lending Amount, Type (US$,million)	FY
Maldives	Male International Airport	5.0 IDA	90L
Nepal	Multi Modal Transport	21.0 IDA	91S
	Public Resources Management	60.0 IDA	92S
	Local Development Fund	25.0 IDA	93S
Papua NG	Transport Improvement II	40.0 IBRD	93L
Philippines	Municipal Development II	45.0 IBRD	90L
	Transport Sector	150.0 IBRD	92S
Sri Lanka	Local Government Development	25.0 IDA	90L
	Roads III	40.0 IDA	90L
	Public Enterprise Restructuring	60.0 IDA	91S
	Transport I	25.0 IDA	91L
Thailand	Highway Sector III	93.0 IBRD	90L
	Inland Waterways II	40.0 IBRD	92S
	C. EMENA		
Algeria	Highways VI	135.0 IBRD	92L
	Transport Sector	100.0 IBRD	92L
	Ports IV	100.0 IBRD	93L
	Railway III	150.0 IBRD	93L
Egypt	Tourism Infrastructure	50.0 IBRD	90S
	Railways III	50.0 IBRD	91S
	Inland Waterways	50.0 IBRD	92L
Hungary	Transport Sector	100.0 IBRD	92L
Jordan	Transport III	35.0 IBRD	91L
	Transport (unidentified)	40.0 IBRD	93S
Morocco	Highways V	68.0 IBRD	90L
	Public Enterprise Reform II	225.0 IBRD	91L
	Port Sector	70.0 IBRD	92L
	Municipal Infrastructure	100.0 IBRD	93L
	Rural Infrastructure	80.0 IBRD	93L

TABLE 2
Page 7

Country	Project	Lending Amount, Type (US$,million)	FY
Pakistan	Transport SAL	200.0 IBRD	90L
	Karachi Port Modernization	103.0 IBRD	90L
	Sindh Intermediate Cities	30.0 IDA	
		20.0 IBRD	92L
	Highways VI	50.0 IBRD	93L
	Transport Sector Loan II	100.0 IBRD	93L
	Urban (unidentified)	50.0 IBRD	93S
Poland	Transport I	150.0 IBRD	90S
	Transport II	100.0 IBRD	93S
Portugal	Transport (unidentified)	100.0 IBRD	93S
Tunesia	Public Enterprises I	130.0 IBRD	90L
	Municipal Development	50.0 IBRD	91L
	Rural Roads	30.0 IBRD	92L
	Transport Sector	80.0 IBRD	92L
Turkey	Transport SECAL	150.0 IBRD	90S
	Transport (unidentified)	150.0 IBRD	91L
	Medium Size Cities	150.0 IBRD	92L
	Urban (unidentified)	150.0 IBRD	92L
	Railway III	150.0 IBRD	93L
	Transport (unidentified)	50.0 IBRD	93L
	Urban (unidentified)	50.0 IBRD	93L
Yemen AR	Transport I	15.0 IDA	90L
Yemen PDR	Flood Reconstruction	6.0 IDA	90L
	Highway Maintenance VI	12.0 IDA	92S
Yugoslavia	Highway Sector III	265.0 IBRD	90L
	Highway Sector IV	150.0 IBRD	92L
	Transport (unidentified)	100.0 IBRD	93L
D. LATIN AMERICA AND CARIBBEAN			
Argentina	Road Maintenance	100.0 IBRD	91L
	Provincial Development	250.0 IBRD	91L
	Publ. Enterpr. Rationalization	350.0 IBRD	91S

TABLE 2
Page 8

Country	Project	Lending Amount, Type (US$,million)	FY
Argentina (cont'd)	Municipal Development II	150.0 IBRD	92S
	Transport Sector I	200.0 IBRD	93S
Barbados	Road Maintenance & Rehab. II	12.0 IBRD	93L
Bolivia	Private Enterprise Development	15.5 IDA	90L
	Eastern Lowlands Reg. Developm.	35.0 IDA	90L
	Road Maintenance	30.0 IDA	93S
Brazil	Highway Management	250.0 IBRD	90L
	Munic. Developm. (Rio Grande)	100.0 IBRD	90L
	Private Sector Development	100.0 IBRD	90L
	State Highways/Feeder Roads	200.0 IBRD	91L
	Port Sector	200.0 IBRD	92L
	Energy Transport	100.0 IBRD	92S
	Cerrado Transport	100.0 IBRD	93L
	Urban Sector II (NE cities)	200.0 IBRD	93S
Chile	Road Sector II	224.0 IBRD	90L
	Port Rehabilitation/ Intermodal Transport	30.0 IBRD	92L
	Gas Pipeline	90.0 IBRD	93L
Colombia	Rural Roads Sector II	55.0 IBRD	90L
	Integr. Rural Development III	90.0 IBRD	91L
	Municipal Development	100.0 IBRD	91S
	Dept. Highway Mainten. Sector	120.0 IBRD	93L
	EPM Infrastructure	75.0 IBRD	93L
	Bogota Transport	60.0 IBRD	93S
Costa Rica	Transport Sector Investment	58.0 IBRD	91S
Dominican Republic	Highway Maintenance IV	50.0 IBRD	91L
Ecuador	Municipal Development	100.0 IBRD	91L
	Rural Development	50.0 IBRD	93S
Guatemala	Rural Investment	30.0 IBRD	93L
Haiti	Transport VIII	35.0 IDA	93S
Honduras	Publ. Enterpr. Adj. & Restr.	50.0 IBRD	93L
	Municipal Development II	40.0 IBRD	93L

TABLE 2
Page 9

Country	Project	Lending Amount, Type (US$,million)	FY
Jamaica	Road Planning & Maintenance	20.0 IBRD	91L
	Public Sector SAD II	20.0 IBRD	92L
	Public Admininistr. Reform II	5.0 IBRD	92S
Mexico	Deregulation	500.0 IBRD	90L
	Public Enterprise Reform II	300.0 IBRD	91L
	Transp. Air Pollution Control	200.0 IBRD	91L
	Rural Development	200.0 IBRD	91S
	Transport Sector	400.0 IBRD	92L
	Urban Transport II	400.0 IBRD	92S
	Highway Sector III	150.0 IBRD	93L
	Urban Development VI	150.0 IBRD	93L
	Railway Sector	250.0 IBRD	93L
	Port Sector V	150.0 IBRD	93L
	Toll Roads	100.0 IBRD	93L
	Border States Infrastructure	100.0 IBRD	93L
	State Highways	60.0 IBRD	93S
Panama	Ports & Railways	30.0 IBRD	93L
	Public Sector Management	5.0 IBRD	93L
	Road Improvem. & Maintenance	32.0 IBRD	93L
Trinidad & Tobago	Public Sector Adjustment	35.0 IBRD	91L
Uruguay	Montevideo Municipal Developm.	30.0 IBRD	91L
Venezuela	Urban Transport	100.0 IBRD	91L
	Public Enterprise Reform	300.0 IBRD	91S

TABLE 3

FY89 LENDING OPERATIONS WITH TRANSPORT COMPONENTS

Region	Country	Project	Lending Amount, Type (US$,million)
Africa	Burundi	Urban II	21.0 IDA
	Cameroon	Urban II	146.0 IBRD
	Cape Verde	Infrastructure Rehabilitation	4.7 IDA
	Gambia	Enterprise Reforms	10.0 IDA
	Guinea Bissau	Social & Infrastructure Relief	5.0 IDA
	Mali	Institutional Development	11.3 IDA
	Mozambique	Rehabilitation III	90.0 IDA
		Urban Rehabilitation	60.0 IDA
	Nigeria	Trade & Investment Policy Loan	500.0 IBRD
	Sao Tome & Pr.	Multi Sector/Priority Works	5.0 IDA
	Sudan	Flood Reconstruction	75.0 IDA
	Togo	Pre-Investment Project	5.0 IDA
	Uganda	Public Enterprises	15.0 IDA
	Zimbabwe	Urban II	80.0 IBRD
Asia	Bangladesh	Flood Rehabilitation II	133.6 IDA
	China	Medium Size Cities	80.0 IDA
			79.4 IBRD
	India	Export Development	295.0 IBRD
		Petroleum Transport	340.0 IBRD
	Indonesia	Private Sector Development	350.0 IBRD
	Nepal	Municipal Development & Earthquake	41.5 IDA
EMENA	Morocco	Public Aministration	23.0 IBRD
	Pakistan	Flood Damage Restoration	40.0 IDA
	Portugal	Tras-Os-Montes Regional Development	90.0 IBRD
LAC	Brazil	Municipal Development	100.0 IBRD
	Jamaica	Emergency Reconstruction	30.0 IBRD
	Mexico	Public Enterprise Reform I	500.0 IBRD

Number of Projects: 26

Context of Transport Intervention:

Infrastructure (General)	11 = 42%
Urban Infrastructure	6 = 23%
Public Enterprise Reform	6 = 23%
Trade Logistics	2 = 8%
Regional/Rural Development	1 = 4%

TABLE 4

FY89 TRANSPORT SECTOR WORK

Region	Country	Working Title	Status
AFRICA	Regional	Sahel Corridor Study	A FY89
		Great Lakes Corridor Study	A FY89
		SSATP Railway Management	A FY89
		SADCC Corridors Viability	C FY90
		Urban-Rural Linkages	C FY90
		SSATP Human Res. & I.D.	C FY90
		SSATP Transport Data	C FY90
		SSATP Road Maintenance & Rehabilitation	C FY90
		SADCC Airlines Review	C FY91
		SSATP Rural Travel and Transport	C FY91
		SSATP Transport Management	C FY91
	Cameroon	Transport Strategy Paper	C FY90
	CAR	Transport Strategy Note	C FY90
	Equat. Guinea	Transport Strategy Paper	C FY90
	Gabon	Transport Sector Review	A FY89
	Kenya	Urban Transport Developm. Issues	C FY90
	Mozambique	Transport Sector Survey	C FY90
	Nigeria	Road Sector Strategy Paper	C FY90
	Tanzania	Civil Aviation Study	A FY89
		Transport Sector Financial Performance Review	A FY89
	Zaire	Transport/Trade Study	C FY90
ASIA	Regional	ASEAN-Reg. Transp. Networks	A FY89
	Bangladesh	Transport Sector Review	C FY91
	China	Provincial Transport	A FY89
		Urban Transport Sector	A FY89
		Shanghai Port Study	A FY89
		Railway Sect. Investm. Priorities	C FY90
		Coal Transport Study	C FY91

TABLE 4
Page 2

Region	Country	Working Title	Status
	India	Transport for Export	A FY89
		Transport Strategy Paper	A FY89
	Indonesia	Transport Overview & Issues	A FY89
		Highway Maintenance	A FY89
		Trade Facilitation	A FY89
	Pacific Islands	Transport Review	C FY90
	Papua NG	Transport/Rural Infrastructure	C FY91
	Philippines	Rural Roads Maintenance	A FY89
	Sri Lanka	Transport Sector Study	C FY90
EMENA	Regional	Maritime Sector Environm. Assessm.	A FY89
	Hungary	Infrastructure Review: Transport Sector	A FY89
	Morocco	Urban Transport Enterprises	A FY89
	Pakistan	Transport Sector Strategy	A FY89
	Poland	Transport Constraints	A FY89
	Tunesia	Transport Sector Strategy	A FY89
	Yugoslavia	Developing Transport Markets	C FY90
LAC	Regional	East Coast Shipping	C FY90
	Argentina	Transport Sector Enterprises	A FY89
	Brazil	Highway Subsector Strategy	A FY89
	Mexico	Transport/Structural Change	A FY89
		Lazaro Cardenas Corridor Study	A FY89
		Transport Sector Strategy Update	C FY90

Case 1

"Premature" Highway Sector Lending that Seems to Pay Off

Even though sector lending preconditions were not strictly met in Colombia, sector loans and Bank flexibility through supervision have enabled a continued dialogue that project loans might not have prompted. Progress is being made on improving investment choices and implementation and more slowly, policies.

In the 1980s, the Bank provided Colombia a comprehensive support to the transport sector through 6 loans totalling $ 515 million: a first rural road project approved in FY81; a railways project and the first highway sector project approved in FY82; a rural transport project and a ports project, in FY86; and a second highway sector loan in FY87. Each project included numerous policy and institutional improvement objectives; the port project and the second highways loan also included actions in support of 2 SECALs for trade and agriculture and totalling $350 million, approved in FY85 and FY86 (Colombia obtained no SALs in the period).

The first highway sector project, that covered the national road investment program, suffered from inadequate programming and budget allocations, as did the subsequent rural roads project. Both financed 50% of approved subprojects. More contracts were started than could be financed; allocations were normally exhausted by mid-year and contractors had to be compensated for work stoppages the following year -under some contracts only one kilometer was improved per year; the project was simply reinscribed in the following budget year. One can only conclude that the required preconditions for sector lending were not met, and ask why, with the experience of the highways project, the rural roads project was approved along sector-type lines. However, motivated management of the agency responsible for rural roads made the difference for the rural roads project: within one and a half years, a physical program that matched allocations to actual work requirements was prepared; economic studies began being done for every subproject, by Colombian staff, following criteria agreed with the Bank; and gradually every contract came under close monitoring. More than 125 contracts are involved. Project completion is now expected 2 years ahead of schedule, by 1990, having taken 4 years. Unit prices have decreased; contractor finances have improved; performance bonds have been reduced. The improvements could probably not have been reached without an initial troublesome phase or through standard project lending. The Bank's flexibility paid off on the investment side. The highway sector loan, on the contrary, experienced a 2 year delay, with disbursements spread over 6 years until end-1988. Some 160 contracts were involved, most of them for less than $3 million base price (it is almost impossible, and meaningless, to estimate cost overruns). The second highway sector loan included a 10% allocation for completion of those contracts, based on a 42% disbursement rate. Disbursements were delayed until funds were fully committed under the first loan. In the meantime, in early 1988 an in depth-review was carried out to improve the situation, with the expectation of replicating the experience of the rural roads project. A physical works program was prepared according to each contractor's work capacity; as local funding was relatively fixed (see next paragraph), the Bank's disbursement rate was increased from 42% to 70% of total cost of works, with focus on completion of on-going work contracts. Some works were cancelled and the Ministry agreed not to call for new bids for 2 years except for maintenance and emergency works. The system of yearly -and late- budget approvals by the Treasury is to be changed, starting in 1990, to pluriannual budgets linked to two years investment programs. This is expected to provide better funding continuity. The former director for rural roads became Minister of Roads in early 1989 and is introducing the sound procedures and practices that worked well for rural roads.

The earmarking system for road financing in Colombia may have insulated the sector from variations in total government funding, such as those due to balance of payment support by the Bank, but may need looking into; although it does not seem to have prompted too high expenditures, relatively more funds were available for feeder roads than for national roads (the national road fund also has to cover debt repayment and as this has greatly increased in recent years, it left less funds for new works.)

Success on the policy front, however, remained more elusive and is likely to be slower than expected. The second highway loan was the culmination of an extensive dialogue with the government, based on a Bank-prepared strategy paper drafted in 1985 with emphasis on institutional objectives not achieved under previous projects. The dialogue was timed with the electoral process in the country. Some 50 actions had to be, and were, met for board presentation. A comprehensive action plan under the loan clearly set out actions required (no less than 80), by whom and by when, on sector policies, budgetary processes and highway management capabilities. It was expected that the Bank and the Government would hold semi-annual reviews. The reviews have so far taken place. However, the action program, to be "monitorable", had to be considerably aggregated into major practical steps. Only recently has procurement of some of the required studies been started (transport plan; on the impact of laws on the national production of trucks). Road maintenance remains less than satisfactory (only some maintenance equipment is financed under the loan), notwithstanding the fact that work by contract has been encouraged.

Over time, staff input for road projects shows a declining trend for preparation and appraisal, an increasing trend for negotiations, and a relatively stable one for supervision, although the frequency of supervision visits was generally less than the planned frequency while more time was spent at headquarters reviewing contracts - the Bank approves every contract - and disbursement requests. The supervision effort varies between 50 and 60 staff weeks per year. Staff time inputs for road projects are considerably less than for port and for railway projects. Over time, staff input for the country's transport sector, including sector work, has fluctuated in a range from 1 to almost 3 without any particular trend, due to the incidence of periodic sector and appraisal work; the maximum was reached in FY85 with 192 staff weeks.

Case 2

Highway Sector Lending that is Paying Off

International preconditions were met in Cote d'Ivoire but officials were initially reluctant to introduce changes in project selection and procurement procedures. After their introduction, however, the results were appreciated and the new procedures have been retained for broader use.

The first highway sector loan followed six highway projects in Cote d'Ivoire. It was approved in FY81, for $ 100 million, more than twice the previous highway project loan amount. It was closely coordinated with the first SAL, also approved in FY81, for $ 150 million. Two more SALs followed in FYs 83 and 86, totalling $ 500 million. In FY85 a second highway sector loan was approved for $ 110 million that also mobilized $ 83 million from cofinanciers; a supplementary loan for $ 45 million was approved in FY88 to counteract the decline in the value of the dollar. A transport sector loan is being prepared.

The sector loan objectives were to assist the Ivoirian Government in its policy of restrained investments, a) by establishing investment ceilings for the road sector and by providing lower cost financing. At the time, costly suppliers credits were extensively used as the ministry of works could engage them without prior approval of the ministry of finance; b) by ensuring that only priority projects were undertaken with the adoption of sound economic criteria for project selection. At the time, technical alternatives were not analyzed; and c) by improving road maintenance. The project got off to a difficult start as officials were not convinced of the utility of feasibility studies or of competitive bidding that added to their workload and restricted their choices. Bank project and program staff held extensive discussions with them, and ultimately, the procedures were adopted. A full year passed between negotiations and loan effectiveness. The Bank was responsive to the government's problems throughout project execution; shortly after loan effectiveness it increased the disbursement rate from 59% to 70% (suppliers credits financed 100%, not requiring local funding) and a year later, it expanded the list of activities that could be financed with the loan. Initially the project was further delayed because the government insisted on using reimbursement procedures, while it did not have funds to make initial payments.

The public works agency was a very efficient work manager; it achieved considerable cost reductions with its improved contracting procedures and works were carried out on time to satisfactory quality. It also enhanced private sector participation in periodic road maintenance works and reduced the expensive works by force account. The ex-post evaluation of subprojects showed returns between 21 and 51 percent, higher than those expected at appraisal. Institution building in other areas proved more difficult, but ultimately, proved effective: a road data unit is now fully run by competent Ivoirians; road transport markets were analyzed by consultants who clarified policy issues and prepared a report that served as the basis for a government action plan to improve productivity; and training of road maintenance staff, though short of objectives, resulted in improved efficiency of operations. (A project completion report is available.)

The public works agency now routinely carries out economic studies of all proposed road projects. Economic priority arguments began to be used with politicians to explain why their proposals were not accepted, and this has resulted in politicians using the same arguments in discussions with their constituencies. Trade offs between a few high standard projects and more projects of lower, but appropriate, standards are now appreciated. It is of interest to note that although the same public works agency is responsible for works in other sectors, such as power projects, it does not routinely carry out economic studies in the other sectors (where the Bank has not been involved with a sector approach).

The second highway sector loan covers both the construction and the maintenance programs; levels and composition of the programs are agreed upon and projects are selected based on the criteria adopted under the first sector project. The Bank finances 90% of the cost of selected subprojects. Based on the findings of studies under the first loan, closing of the national freight bureau and abolishing the bill of lading for domestic trucks were conditions of effectiveness, and further conditions require changes in transport regulations, road blocks, axle-load controls, and studies. Overall progress is satisfactory, although with some delays and continued shortages of local funds for road maintenance. Because of the erosion in the value of the loan, expressed in dollars but needed in other currencies, a supplementary $ 45 million was approved in 1988. The Bank is now preparing a more ambitious transport sector loan. In particular, the railways pose difficult problems; years ago disagreement on how to solve them led to abandoning a proposed railways project.

The first highway sector loan took 50 staff weeks in preparation and appraisal, and 20, in negotiations. The second, took more, 107 staff weeks, in preparation and appraisal and in discussions with cofinanciers, and less, 8 staff weeks, in negotiations. The first year of full fledged supervision took around 20 staff weeks in both cases. Staff inputs thus were higher than for a standard project.

Case 3

Beyond Sector Lending: Back to Investment Lending

Korea gradually adopted sound policies in the transport sector and is committed to introduce further improvements. No policy conditionality was or is necessary, but Bank resource transfer still is justified.

Korea is a clear example of what government commitment to "appropriate" policies can achieve. One or two loans have been approved per year in the 1980s; lending exceeded $ 1 billion and the implementation record was good. The most recent roads project, the loan of $200 m approved in FY89, includes only three covenants, that deal only with project implementation aspects. The project covers road investments, but also more sophisticated sector management aspects: the establishment of a road maintenance management system, and a road safety program. No policy covenants were required. In the period Korea also obtained SALs and SECALs totalling $772 million.

Only one of the projects, for highways, was called a sector loan. It was approved in FY84. The increased emphasis on sector and subsector work directly linked to the sector loan strengthened the dialogue with the government, and provided the framework to improve planning and coordination of various agencies, for energy conservation policies, to deregulate land transport and for maintenance management and road safety. Staff was trained in planning and evaluation of transport projects; as a result, projects are now prioritized in a highways master plan, with implementation scheduled accordingly and yearly funding to match. Studies of transport regulations addressed the issue of their impact on energy efficiency (eg. regulations inducing empty back-hauls or "uneconomic" truck sizes) and regulatory reforms have been introduced based on the studies' findings. Road maintenance is good and is being further improved under the FY89 project, although improvements remain to be introduced in the maintenance of provincial and country roads, under local government responsibility. The FY89 project also incorporates the road safety program identified under the sector loan.

This record was achieved with no more Bank staff time input per year than that for other "large" countries. Sector work in preparation of the sector loan was quite intensive, using 48 staff weeks in FY82 and 41, in FY83; preparation and appraisal, and negotiations of the sector loan were then relatively easy, requiring only 56 staff weeks and 8 staff weeks respectively; an average of 13 staff weeks per year was spent on subsequent supervision, only slightly more than for the average project. Subsequent projects, some of which supported Korea's export-led growth (eg. ports and corridor improvement), and other objectives beyond the transport sector, required even less staff input than the sector loan. Overall 8 sector reports were prepared in the 1980s. Yearly Bank staff supervision effort for the sector ranges between about 40 and 60 staff weeks, due more to the multiplicity of projects and disciplines required to follow them than to there being problems in need of resolution. Total yearly staff inputs reached a maximum of some 160 staff weeks in FY87, but were only 50 staff weeks the following year.

Case 4

Highway Sector Lending: Crowding Out by Funding Without Strings

Since 1982 and following seven highways projects and four railway projects, Mexico obtained three transport subsector loans: the second highway loan (FY84, $200 million), a railway sector loan (FY85, $300 million) and highways maintenance loan (FY88, $135 million). It also obtained two smaller loans for two port projects (FY84, $76 million and FY88, $50 million) and one rural roads loan (FY85, $22 million). As expected, sector loans were larger than project loans; the total approved in the FY82 to FY89 period was $783 million. Over the same period $1,915 million were provided under five sector adjustment loans in support of trade and agriculture and a $1,000 million "B" loan was approved for road and rail investments.

The second highway sector loan was to continue financing subprojects started under the first sector loan, and was a recognition of the major reforms taken by a new administration. Conditions seemed adequate to proceed with another highway sector loan -the ministries of public works and transport were combined and reorganized; a planning unit was established; fuel prices were raised; the investment program was rationalized to meet budget availability; a dialogue on road pricing and regulations was initiated. In addition to providing retroactive financing, the second loan was to finance 70% of the cost of agreed works the first year, and 35% thereafter for new works (50%-30% for other works); overall, it was equivalent to 24% of the 1984-86 road investment program that it supported. It did not include financing for road maintenance for which a separate project was planned. Disbursements were fast, as foreseen, the first two years. Thereafter, they slowed down and were only $ 6 million in FY89, covering 50 small contracts, despite a $270 million road program under execution. Sector Expenditure levels were well below estimates as the economy continued to suffer. Government allocations were made to agencies on the basis of total spending limits, with no indications or restrictions for particular projects or sources of financing. There was little incentive to use Bank financing since the Government provided the total budgeted funds, regardless of whether Bank funds were used. The Federal Highway Department chose not to use Bank financing that requires international bidding procedures. Mexican procurement practices deteriorated and were not acceptable for Bank projects: final designs were not being prepared for bidding, contractor short lists were used, the bidding period was shortened and contracts are valid for only one year. Most contracts are awarded to domestic contractors who are paid fully in domestic currency; i.e., foreign exchange was not needed to pay for road works. Domestic funds could be used without procurement restrictions, and when federal government funding ran out, some private and state government funding was mobilized to continue works, which were ineligible for Bank financing. About half the loan amount remains undisbursed.

The Bank did not use the potential sector loan flexibility or conditionality as much as it could have. It could have raised the disbursement percentage considerably, but increased it late and only to 45% because of the earthquake; agreement was reached to fund the Ministry's road rehabilitation program as a precondition of a highway maintenance loan but the responsible directorate never applied the funds. In turn the new maintenance loan (FY88) did not achieve an increase in the local maintenance budget as covenanted; the 1989 budget is only about half the estimated needs, and so far, project implementation has not started. Amendments to both projects are being considered, including extending the closing date and the cancellation of a portion of the sector loan. However, progress under other projects is equally poor: the Chiapas rural roads project was cancelled; the ports and railway projects are doing better but are also facing problems. Undisbursed funds for the five on-going loans in the transport sector amount to US$ 580 million, of $761 million approved. Commitment fees are considerable.

Starting in 1989, the new administration has indicated that budget allocations will specify both the total amount and sources of financing, and that unless available financing such as the Bank's are utilized, the budget is to be reduced. This change should provide an incentive to utilize Bank financing. The new administration is also starting to implement substantial changes in pricing and regulation policies in the transport sector. The comprehensive Bank's sector work - 11 studies made between 1981 and 1988 - and long term dialogue played a role in raising the awareness of officials on issues. Total staff input peaked in FY87, with two project appraisals and with 244 staff weeks; in FY88, the effort for the sector was down to 139 staff weeks, with, however, increased supervision, 95 staff weeks for all transport projects; unfortunately, under the sector loan, mostly to review contracts for financing eligibility.

Case 5

Transport Sector Adjustment Lending to Elevate the Dialogue

Turkey needs to introduce critical but politically difficult reforms in its transport sector, but does not need to increase the overall funding for the sector. A proposed transport sector adjustment loan is seeking to elevate the dialogue to the highest level of government, the only level that can undertake the reforms, while providing balance of payment support, in lieu of a SAL.

The Bank's involvement in Turkey's transport sector has been small and sporadic. To date, the Bank has made only 7 loans to the sector versus over 30 in industry and over 20 each in agriculture and energy. Of these 7 loans, totalling US$743 million, one was made in the 1950s and 2 in the 1970s. It is only in the early 1980s that a broader dialogue was restarted with 4 project loans totalling $589 million, for the most important subsectors: roads, railways and ports, and with studies in the maritime and civil aviation subsectors. It had been decided that project lending was preferable to sector lending, but transport staff also participated in broad public investment reviews conducted in the 1980s in the framework of the Bank's policy dialogue which accompanied the five SALs ($1.9 billion) followed by four SECALS ($1.4 billion) for energy, agriculture and the financial sector.

It is possible that the Bank's balance of payment support may have helped spur expenditures in the transport sector. Since 1985, the government has embarked on an expressway construction program with $2.2 billion extra-budgetary funds borrowed from commercial banks, but without detailed designs, cost estimates or adequate planning. By 1988, the Bank considered that rationalization of investments was essential to avoid major cost and time overruns, and severe consequences on the public finances. The government also embarked in constructing one light rail system with two more planned, one with soft bilateral and private foreign assistance under a modified BOT scheme. It is not certain that the systems are economically justified. And, the railways incurred increasing deficits that can only be reduced with reforms, including the curtailment of passenger services and of staff; the ongoing railway project requires the reforms but they are not introduced.

By 1988 it was felt that addressing some of the major transport sector issues transcended what can be achieved through project or sector lending to line agencies such as the Directorate of Roads or the Turkish State Railways. For instance, the expressway program or the future role of the railways involve major policy decisions and difficult political choices. These can only be taken at the highest level of Government and in consultation with various central agencies, in addition to line ministries and our traditional borrowers. Furthermore, curtailment of funds rather than additional funding was needed; therefore, it was decided that a transport sector adjustment loan would be an appropriate vehicle to tackle some of the most difficult issues in the sector as well as contribute to Turkey's overall structural adjustment program. No new SALs are planned.

The macroeconomic adjustments pursued by Turkey have focused on reduction of the fiscal deficit to control inflation and on an export drive to strengthen the balance of payment and service the foreign debt. The proposed set of reforms in the transport sector can contribute significantly to these two objectives: it addresses issues of investment levels, particularly focussing on the motorway program now estimated to cost $4 billion or more; of state enterprise deficits, particularly railways; of revenues from the sector, particularly road user charges. Measures to modify a discriminatory wharf tax and abolish restrictions on containers would help foreign trade. In addition, a number of reforms in the transport sector are proposed, including increasing road maintenance budgets; reorganization of the road department; road safety; trial privatization of port services and a number of policy studies in the various subsectors. The last preparation mission left an aide memoire detailing some 26 areas in need of reform and the type of reforms sought.

The major difficulty in pursuing this operation is obtaining the participation of the line agencies that will have to carry out the reforms and introduce changes in their ways of conducting businesses. The Bank's main interlocutors, Treasury and State Planning Organizations are experiencing themselves difficulties in convincing line agencies to submit specific reform proposals along the lines suggested to them. This is particularly difficult since the proceeds of the loan will go entirely to the Treasury, with no direct sectoral allocation.

Case 6

Sector Adjustment/Investment Lending

Chad became the first country to receive a transport sector adjustment loan. The operation will be closely monitored.

Chad's infrastructure and institutions needed rebuilding by the time the recent war, and the related long hiatus in foreign assistance, were over. The income per capita, never high, was at subsistence levels. An emergency road maintenance project was approved in FY86 for SDR 17.1 million, and an emergency type road reconstruction project was approved in FY88 for SDR 34.4 million. A follow-on, complementary sector adjustment/investment loan was approved in FY89 for SDR 45.4 million, the first specifically called sector adjustment loan for transport. The government issued a policy statement, including a policy matrix, outlining its adopted reform package. The monopoly by the trucking cooperative was abolished before loan approval; transport prices are being liberalized: first, a tariff range substituted fixed tariffs as condition for effectiveness; next, the range will be abolished and this is a condition for a tranche release. Improvement of the fuel tax collection is a requirement for another tranche release. The whole system is to be overhauled: agencies will be reorganized, a road fund established, contracting procedures changed, maintenance increasingly privatized. An adjustment, quick disbursing, element is to support the balance of payments inter alia with the proviso that funds will be released for non-personnel expenditures of the ministries of transport and of public works; the $10 million Bank contribution to this element is to be disbursed in 3 tranches, each requiring some prior actions. The investment element covers the full 1989-93 sector program including maintenance, estimated to cost $ 160 million. The Bank will finance 95% of the cost of selected civil works, and 7 more agencies will contribute towards other works. The operation is ambitious, but improvements are urgently needed. Standard project lending was considered insufficient to address the issues; innumerable changes are to be introduced, and most have been required up-front or as disbursement conditions. Compliance with initial reforms has delayed the schedule by some 6 months.

Case 7

Multi-modal, Transport Project/Sector/Adjustment Operation

The Guinea transport sector project includes not only all transport modes but also features from all Bank lending instruments: project lending (it finances specific investments, technical assistance, studies); sector lending (it covers time slices of an agreed investment program); and adjustment lending (it includes conditions for effectiveness and disbursement; a policy matrix supported by a government statement; and is part of a series of coordinated loans). Given the backlogs in the sector, it is not certain that a simpler project would have been better, even when taking into account the limited institutional capabilities in the country. Monitoring is likely to be difficult.

Guinea's transport sector was barely developed when the Bank started assisting it in the mid-1970s, under a difficult political regime and scarce public resources. Successive projects built up institutions and infrastructure, both in the roads and port subsectors; the path has not been problem-free, but approaches evolved based on experience and developments in the country to the point that in FY87 a transport sector loan, for $55 million, could be approved. It was preceded by a port project and a highway project earlier in the 1980s, and followed in FY88 by another road (investment) project; the four loans total $150 million. The Bank has been the "leader" in the sector, orienting expenditure choices and mobilizing and coordinating cofinancing. The Bank has also been an important source of balance of payment support, through 2 SALs that also mobilized cofinancing and totalled $155 million and supported important reforms.

The sector loan became effective after fuel taxes and port rates were increased and other actions were taken regarding port regulations and debt, and privatization of all stevedoring and transit activities. It covers the overall investment program, that is to be reviewed annually. A mechanism is to be set up to earmark funds for road maintenance expenditures at agreed levels. Government owned transport monopolies are to be abolished (road transport) or improved (railways, airways, port); the construction unit established in the ministry of public works under the previous project is to become, as foreseen then, the first private contracting enterprise. Sector regulations are to be reviewed accordingly. The reforms are summarized in a policy matrix with monitorable targets, included in a letter of intent signed by the government; certain actions are conditions for disbursement. The loan funds will finance works originally under the previous highways project that experienced severe cost overruns, expansion of the main port, improvement of airports, training and studies, over 5 years. IDA finances 50% of the project cost; 4 cofinanciers, another 40%, and the government, only 10%. The previous project is to continue assisting road maintenance operations. The subsequent road project provides for construction of 600 km of roads, IDA's loan contributing a lower share, less than 30%, four cofinancers increasing their share to more than 60%, and government still covering 10% of the costs. The loan effectiveness was conditional on the establishment of the road fund - and funding - foreseen under the sector loan; this suffered delays.

The objectives are no doubt the right ones, but the comprehensiveness of the involvement, through 3 simultaneous operations, coupled with the limited institutional capabilities in the country and complex political/economic changes raise doubts about implementation possibilities. Doubts are only mitigated by the commitment of government officials, and by the input of foreign experts and contractors. So far, progress is more than a year behind schedule, but this delay is not unusual, especially when legal changes or parliamentary actions are required. The fact that three sets of covenants apply simultaneously is very confusing and to say the least, difficult to monitor (some earlier project covenants are superseded by time but many other covenants overlap inexactly).

Preparation and appraisal of the sector loan was done with 112 staff weeks, well below what would have been required to prepare at least two separate projects; preparation and appraisal of the subsequent investment project was completed with 50 staff weeks. The Bank supervision effort may be insufficient, with different staff alternating in short visits (for example, 1 project officer reviewed overall progress in only 6 days). However, in FY88 supervision of transport projects in Guinea was carried out with some 57 staff weeks, more than the average for African countries, and it is not clear that more supervision would have been better, except if it was for field trips. Absorptive capacity for Bank supervision is limited; time spent by the relatively few high level officials with Bank staff is not spent in getting done the things the Bank is asking for. Total time spent by Bank staff for the transport sector reached a maximum of around 120 staff weeks in each of FYs87 and 88, much more than in previous years but much less than the 200 staff weeks or more spent in peak years in non-African countries with no more complex problems or ambitious objectives -and no better record of relative success.