



## 1. Project Data

<b>Project ID</b> P161122	<b>Project Name</b> Republika Srpska Railways Restructuring	
<b>Country</b> Bosnia and Herzegovina	<b>Practice Area(Lead)</b> Transport	
<b>L/C/TF Number(s)</b> IBRD-88080	<b>Closing Date (Original)</b> 31-Dec-2021	<b>Total Project Cost (USD)</b> 57,261,247.96
<b>Bank Approval Date</b> 07-Dec-2017	<b>Closing Date (Actual)</b> 31-Dec-2024	
	<b>IBRD/IDA (USD)</b>	<b>Grants (USD)</b>
Original Commitment	60,598,000.00	0.00
Revised Commitment	60,598,000.00	0.00
Actual	57,261,247.96	0.00

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## 2. Project Objectives and Components

### a. Objectives

According to the Loan Agreement of March 6, 2018, the objective of the Project was "to improve the operational efficiency and financial sustainability of the railways in Republika Srpska" (p. 5). The objective of the project was stated the same way in the Project Appraisal Document (p. 6).

For the purposes of this Implementation Completion and Results Report Review (ICRR), the objective will be assessed as follows:



1. To improve the operational efficiency of the railways in Republika Srpska
2. To improve the financial sustainability of the railways in Republika Srpska

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

Yes

**Did the Board approve the revised objectives/key associated outcome targets?**

Yes

**Date of Board Approval**

20-Sep-2021

**c. Will a split evaluation be undertaken?**

No

**d. Components**

The Project had three components to support the restructuring of a state-owned railway company, Željeznice Republike Srpske (ŽRS), in Republika Srpska (RS):

1. **Component 1. Financial restructuring** (cost at appraisal: US\$50.4 million; actual cost: US\$49.9 million). This Project component would:
  - Use the proceeds of the International Bank for Reconstruction and Development (IBRD) loan to repay ŽRS's outstanding arrears to its employees including (i) direct debts to employees for benefits and allowances; (ii) contributions on salaries, meal allowances, and paid leave allowance; (iii) employers contributions for employees' taxes'; (iv) lawsuits on labor disputes; and (v) penalties and interests.
  - Convert ŽRS's long-term debt of US\$88.59 million to the RS Government into equity. Thereby, relieving ŽRS of its historic debt burden. The RS Government would use its own financing to convert debt into equity, including buying back the shares of the non-government shareholders at a fair price. Prior to proceeding with the conversion of debt into equity, ŽRS would put in place organizational and business plans, including commitments between the RS Government and ŽRS to secure funding for services to minimize the risk of ŽRS building up new debts (see Component 3 on organizational restructuring below).
2. **Component 2. Workforce restructuring** (cost at appraisal: US\$4.1 million; actual cost: US\$1.4 million). This Project component would support workforce optimization through retirement, voluntary separation, and retrenchment to cut labor costs due to excess employment at ŽRS. The component would provide:
  - Compensation packages for up to 1,000 employees over the period 2018-2021.
  - Support to retrenched employees through training and counseling.
3. **Component 3: Organizational restructuring** (cost at appraisal: US\$5.9 million; actual cost: US\$8.5 million). This Project component would support:
  - ŽRS reorganization into a corporate core and two independently managed and separately accounted departments, one for infrastructure management and another for transport operations (including freight and passenger businesses). The reorganization would also include implementation of a modern financial accounting system, human resources



- management and payroll, and railway asset management systems for infrastructure and transport operational departments.
- Preparation of medium term business and marketing plans (segmented by infrastructure and transport operations including freight and passenger operations) and formulation of corresponding contracts with the RS Government for passenger services (passenger service obligation or PSO) and infrastructure management (multi-annual infrastructure contract or MAIC) in accordance with the European Union (EU) acquis.

For component 2, the actual cost at Project closure was less than the estimated cost at Project appraisal because staff reductions were achieved through retirement or voluntary departure without the use of retrenchment, resulting in savings of US\$2.7 million. These savings were reallocated to component 3, resulting in the actual cost at closure being greater than the estimated cost at appraisal for this component.

While the loan instrument was an investment project finance, the Project would use a performance-based condition framework based on disbursement-linked indicators (DLIs) and disbursement-linked results (DLRs) to incentivize the achievement of the desired outcomes (see Table 1 below).

**Table 1. Original Performance-Based Contract Framework of the Project**

DLIs	July 31, 2018	July 31, 2019	July 31, 2020	July 31, 2021
<b>DLI1: Implementation of financial restructuring.</b>	DLR 1.1A (US\$1.2 million). Restructuring plan approved by RS Government. DLR 1.1B (US\$2.4 million). Settlement of worker-related areas for 500 workers.	DLR 1.2 (US\$14.2 million). Settlement of all remaining areas: DLR 1.2B. Worker-related arrears for the remaining workers. DLR 1.2C. ŽRS's employee tax withholding for all workers. DLR 1.2D. Penalties and interest-related areas for all workers.	DLR 1.3 (US\$3.5 million). Debt-to-equity conversion (RS Government hold more than 90% of ŽRS capital).	
<b>DLI2: Implementation of workforce restructuring.</b>	DLR 2.1 (US\$2.4 million). Implementation of Retrenchment Plans for 500 ŽRS workers.	DLR 2.2 (US\$5.9 million). Implementation of Retrenchment Plans for an additional 200 ŽRS workers (700 workers in total).	DLR 2.3 (US\$7.1 million). Implementation of Retrenchment Plans for an additional 300 workers (1000 workers in total).	
<b>DLI3: Implementation of organizational restructuring.</b>	DLR 3.1 (US\$2.4 million). Consultants selected for the following two	DLR 3.2 (US\$3.5 million). Draft reports completed for the	DLR 3.3 (US\$7.1 million). Implementation of: DLR 3.3A. Recommendations of key regulatory and financial	DLR 3.4 (US\$10.8 million). DLR 3.4A. Management



	consultancies: DLR 3.1A. Regulatory and functional review of the railways, ŽRS reorganization, modern management and financial systems, and asset management systems. DLR 3.1B. Business plans, contracts for Public Service Obligation (PSO), track access charge (TAC), multiannual infrastructure (MAI), and management performance.	consultancies referred to in DLR 3.1.	reviews. DLR 3.3B. New ŽRS organization structure in place. DLR 3.3C. PSO, TAC, MAIC and performance contracts signed. DLR 3.3D. Asset management plans in place. DLR 3.3E. ŽRS Business plans for operations, infrastructure and workshops approved. DLR 3.3F. Acquisition of management and financial systems.	and financial systems are fully functional. DLR 3.4B. PSO and MAIC fully funded DLR 3.4C. Contracts reviewed and updated DLR 3.4D. Business plans reviewed and updated.
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**e. Comments on Project Cost, Financing, Borrower Contribution, and Dates**

**Project Cost.** The estimated Project cost at appraisal was US\$60.48 million based on an EUR to US\$ exchange rate of 1.18125 in the Project Appraisal Document. The actual Project cost at closure was US\$59.8 million based on an EUR to US\$ exchange rate of 1.168 in the Implementation Completion and Results Report (ICR). The difference of US\$0.68 million between estimated Project cost at appraisal and actual Project cost at closure is due to depreciation of EUR against the US\$.

**Project Financing.** The Project was financed by an IBRD loan. The total loan amount at appraisal was US\$60.48 million based on an EUR to US\$ exchange rate of 1.18125 in the Project Appraisal Document. The total amount disbursed at closure was US\$59.8 million based on an EUR to US\$ exchange rate of 1.168 in the ICR.

**Borrower/Recipient contribution.** The RS Government was expected to contribute an amount of US\$88.6 million (EUR 75 million) towards debt-to-equity conversion under component 1 of the Project. The debt-to-equity conversion, however, did not trigger any financing from the RS Government during Project implementation.

**Project Dates.** The Project was approved on December 7, 2017 and became effective on August 31, 2018. The mid-term review (MTR) mission was conducted on October 27, 2020. The Project was formally restructured twice: (i) on September 20, 2021; and (ii) on December 21, 2022. The original closing date of the Project was December 31, 2021. The Project was extended twice, for a total of three years, to December 31, 2024, which was the actual closing date of the Project.



## Restructurings.

The amount of IBRD loan disbursed at first restructuring in September 2021 was US\$47.84 million. The first restructuring was essentially to extend the IBRD loan closing date from December 31, 2021 to December 31, 2022 and to incorporate the following changes in the results framework due to slow implementation progress from lockdowns from the COVID-19 pandemic:

- extend the targets completion dates for most indicators due to extension of the closing date.
- reduce the target value of the indicator, ŽRS labor productivity ratio, from 215,000 to 200,000. This indicator measures the operational efficiency in thousands of traffic unit (sum of freight tonne-kilometer and passenger-kilometer) per employee.
- add two intermediate outcome indicators on gender aspect of the Project: (i) percentage of ŽRS employed women who applied for job retraining opportunities in the company are retrained, and (ii) ŽRS managers trained on topics related to gender and safety at work.

The amount of IBRD loan disbursed at second restructuring in December 2022, at US\$47.84 million, remained unchanged since the first restructuring. The second restructuring was essentially to extend the IBRD loan closing date from December 31, 2022 to December 31, 2024 and to incorporate the following changes in the performance-based condition framework due to capacity constraints in the implementing agency (project implementation and management team or PIMT):

- drop DLR 3.4C (Table 1) and reallocate the disbursement amount of US\$3.5 million associated to this DLR to DLR 3.3C.
- drop DLR 3.4D (Table 1) and reallocate the disbursement amount of US\$1.4 million associated to this DLR to DLR 3.3E.

**Split rating.** Despite a reduction in the target value of the ŽRS labor productivity ratio indicator, a split rating is not applied in the ICRR because the first restructuring did not modify the objectives or the scope of the Project.

## 3. Relevance of Objectives

### Rationale

**Country and Sector Context.** At Project appraisal, Bosnia and Herzegovina had a decentralized government structure comprising of two entities: the Federation of Bosnia and Herzegovina (FBH); and RS. Due to this complex political structure, Bosnia and Herzegovina faced significant challenges in decision-making from lengthy deliberative and legislative procedures on developing sectoral policies and addressing development priorities. Bosnia and Herzegovina had one of the World's largest public sector relative to the size of its economy with government expenditures at 43.7 percent of the gross domestic product. The efficiency of the railway sector was a major concern for both the Bosnia and Herzegovina entities. At Project appraisal, the railway company at RS (ŽRS) was generating operating losses due to excessive labor costs from overstaffing and insufficient budgetary support to cover the cost of passenger services,



which was provided at a subsidized rate to public. As a result, ŽRS was financially unsustainable at Project appraisal.

**Prior World Bank Advisory Support to BiH in the Railway Sector.** In 2016, the World Bank prepared a Railway Policy Note to assist the governments of FBH and RS to better understand the conditions of the railway sector, assess the policy options for modernizing it, and help chart a course ahead. As a result of this Policy Note, in 2017, the RS Government prepared a Letter of Sector Policy establishing the Government's vision and strategy for the railway sector and requested World Bank support in modernizing the railway sector.

**Transport Sector Modernization Program.** The Project was part of a broader program, Transport Sector Modernization Program (TSMP), approved by the World Bank's Board in August 2016 to support the Bosnia and Herzegovina's transport modernization in the most effective manner to achieve national economic and social goals. The Federation Road Modernization Project was the first phase of the TSMP aimed at improving road connectivity and safety. The Project was the second phase of the TSMP aimed at supporting the modernization of the railway sector for the RS Government.

**Relevance to the World Bank Group's (WBG's) Assistance Strategies at Project appraisal.** The Project objectives were aligned with the focus area 1 (increasing public sector efficiency and effectiveness) of the Country Partnership Framework (CPF) for Bosnia and Herzegovina for the period FY16-20. This focus area was also one of the top four priorities identified in the 2020 Systematic Country Diagnostic (SCD), which focused on reducing the size of the public sector while ensuring fiscal sustainability and improving public service delivery. The remaining three priorities identified in the 2020 SCD were: reforming the labor market, improving business environment, and investing in economic infrastructure for growth and inclusion. The Project objectives were aligned with the objectives 1a (improving the management and efficiency of public finances) and 1b (strengthening governance and reducing fiscal burden of state owned enterprises or SOEs) of the focus area 1 of the FY16-20 CPF. The FY16-20 CPF also indicated a special focus on the railways sector, which was a priority for RS and FBH governments at Project appraisal.

**Relevance to the WBG's Assistance Strategies at Project closure,** The Project objectives were aligned with the objective 4 (improved performance of selected SOEs and public institutions for better service delivery) of the high-level outcome 2 (increased key public services outcomes) of the FY23-27 CPF for Bosnia and Herzegovina. The objective 4 in FY23-27 CPF was created by merging the objectives 1a and 1b of FY16-20 CPF. Under the objective 4, the FY23-27 CPF indicated that the World Bank Group would support institutional reforms to strengthen capacities and financial efficiency of selected SOEs and public institutions across sectors. Therefore, the Project objectives remained relevant in the FY23-27 CPF at Project closing.

The Project objectives were well aligned with the Bank Group strategies both at Project appraisal and at Project closing. The Project objectives were also addressing both operational and financial inefficiencies at ŽRS, a SOE, through reforms in the RS railway sector. Thereby, contributing to the solution for addressing a broader development problem related to inefficiencies in SOEs in the country. The relevance of the Project objectives is rated High.

## Rating



High

#### 4. Achievement of Objectives (Efficacy)

### OBJECTIVE 1

#### Objective

To improve the operational efficiency of the railways in Republika Srpska.

#### Rationale

**Theory of change.** Based on the information in the ICR and in the PAD, the following is the logical sequence for achieving this Project objective: The activities (strategic planning for staff reduction, compensation to employees, training and counseling to retrenched employees, training on gender awareness, and grievance mechanisms) would lead to outputs (delivery of strategic plan for workforce optimization through retirement, voluntary separation, and retrenchment; maintain the current share of women employees in the new ŽRS organization; and resolve workers' grievances). These activities and outputs would lead to reduction in staff, which in-turn would lead to Improved labor productivity. The shortcomings in Project design affected the causal links between activities and outcomes. For example, a narrow scope, focusing only on workforce restructuring without any activities related to improving operational practices and investments in modern equipment and rolling stock, is unlikely to lead to increased operational efficiency outcome (ICR, p.9).

**Intermediate outcomes.** The Project was successful in reducing the workforce at ŽRS by 1,204 employees, exceeding its target of 1,000 employees. To facilitate staff reduction, an amendment to the Law on Railways in RS was triggered by the Project and adopted by the RS Government. Thereby, enabling ŽRS to terminate an employment contract when an employee reached 40 years of service. As a result, staff reduction in this Project was achieved through retirement or voluntary departure without the use of involuntary retrenchment (ICR, p. 9 and p. 14). However, there were excessive staff reductions in some areas and insufficient in others due to weaknesses in the strategic planning on staff reduction, which lacked clarity on how and where to reduce staff to meet the Project target (ICR, p. 15). In addition, given the attractive compensation package, many skilled staff voluntarily left ŽRS to seek private sector and overseas opportunities. Thereby, resulting in operational disruptions during Project implementation. As a result, ŽRS had to hire 57 new staff between 2019 and 2020.

The share of women employees in the workforce between Project appraisal and Project closing remained at the same level, at 15 percent (ICR, p. 24). However, both the indicators related to gender fell short of meeting their targets: 72 percent of ŽRS-employed women who applied for job retraining opportunities in the company were retrained, slightly below the target of 75 percent (ICR, p. 24); and 29 managers were trained, falling short of the target of 50 (ICR, p. 14). According to the latest update provided by PIMT on February 2, 2026, all grievances pending as of the Project closing date have been fully resolved (Comments from the Region received on February 13, 2026, hereafter, Region's Comments).

**Outcomes.** The labor productivity indicator, at 164,000 traffic units per employee, fell short of its original target of 215,000 and its revised target of 200,000. The shortfall ranged between 65-75% after factoring the baseline value of 146,000. This was mainly due to the following two unanticipated events and exogenous shocks: (i) collapse of a major bridge, which served about 25 percent of ŽRS freight traffic, in October 2024



led to major disruptions and reduction in ŽRS freight traffic volumes; and (ii) COVID-19 pandemic led to a significant decline in passenger traffic by about 57 percent (from about 180,000 passengers before the pandemic to about 80,000 in 2024, ICR, p. 9). It can be argued that had these unanticipated events and exogenous shocks not occurred the Project could have fully achieved its operational efficiency targets at closing, given that the Project exceeded its revised target in 2022 (at 214,000 traffic units). However, these gains in operational efficiency may not be sustainable over the long-term. This is because evidence and lessons from the ICR show that staff reductions in railways without parallel capital investments in critical assets (such as modern signaling systems, renewed rolling stock, and manual interventions) have a limited impact on improving operational efficiency (ICR, p. 21).

Based on the evidence in the ICR, the Project **modestly** achieved its objective of improving the operational efficiency of the railways in Republika Srpska.

**Rating**  
Modest

## **OBJECTIVE 2**

### **Objective**

To improve the financial sustainability of the railways in Republika Srpska.

### **Rationale**

**Theory of change.** The logical sequence for achievement of this objective is based on the activities, outputs, and intermediate outcomes of two Project components: financial restructuring; and organizational restructuring. Based on the information in the ICR and in the PAD, the following is the logical sequence for achieving this Project objective:

- The activities related to the organizational restructuring component (financing from IBRD loan to fund consultants for: implementing a new organization structure for ŽRS; implementing modern financial accounting and asset management systems; developing financially sustainable business plans; developing PSO, MAIC, and TAC contracts; and setting up grievance mechanisms for addressing complaints from railway users) would lead to outputs (financial accounting and asset management systems for Infrastructure and transport operations divisions implemented; ŽRS 5-year business plans approved by RS Government; PSO, MAIC, and TAC contracts signed by the RS Government; and reduction in passenger and freight complaints).
- The activities related to the component on financial restructuring (financing from IBRD loan to repay outstanding debts to ZRS employees and financing from RS Government to convert ŽRS debt to equity) would lead to outputs (settlement of arrears related to ZRS employees, and approval of a financial and ownership restructuring plan by RS Government to recapitalize and deleverage ŽRC and to buy-out the shares of minority shareholders).
- The above activities and outputs would lead to intermediate outcomes (PSO contract implemented and fully covers passenger operations deficit, MAIC contract implemented and fully covers infrastructure investments, ŽRS freed of outstanding debts to employees, debt to equity converted by RS Government, and RS Government buys-out the shares of non-government minority



shareholders to hold more than 90 percent of ŽRS capital). These intermediate outcomes in turn would lead to improved financial sustainability.

**Intermediate outcomes.** Evidence from the ICR shows that the Project was successful in relieving ŽRS historical debt burden both towards its employees and RS Government. For example, the Project was successful in settling ŽRS's outstanding debt of US\$42.7 million to its employees using the proceeds from the IBRD loan (ICR, p. 24). Also, evidence from the ICR (p. 10) shows that debt-to-equity conversion was implemented to address ŽRS's obligations to the RS Government. The DLI related to debt-to-equity conversion "*DLR 1.3 More than 90% of ŽRS' capital is owned by RS, as evidenced by registry certificate issued by the Banja Luka Stock*" was achieved based on the Borrower's ICR (ICR Annex 5, p. ii). The final decision and conclusion of the debt-to-equity process is marked by the decision of the court No.60-0-Per-24-000393 dated September 2, 2024. Chronologically, first contract on asset inventory and valuation was contracted in June 2022, followed by a study on valuation contracted in February 2024. Upon completion of the valuation study, new allocation and valuation were implemented and reflected in the company books in December 2024. At Project closing, the RS Government owned 99.98 percent of shares, almost achieving the target to become sole shareholder (100%), only missing buy-out of some minority shareholders (through an offer for acquisition) due to legal disputes.

The Project was successful in creating a new organizational structure, involving a holding company along with two subsidiaries (transport operations division and infrastructure division). The transport operations division further includes two units: freight operations; and passenger operations. Also, a new unit, common affairs, manages the Enterprise Resource Planning (ERP) system and Rail Infrastructure Asset Management System (RAIMS), which enables the new organization to maintain separate financial accounting and asset management for infrastructure management, freight operations, and passenger operations. Thereby, enhancing financial transparency at ZRS (ICR p. 10). In addition, the 5-year business plans for the two subsidiaries were adopted by the RS Government (ICR, p. 10). Also, the PSO, MAIC, and TAC contracts were adopted by the RS Government. Thereby, replacing the traditional input-based subsidies with output based contractual agreements between ZRS and RS Government for passenger service obligation and infrastructure management. However, the implementation of these contracts in terms of funding from the RS Government is a concern. According to the ICR (p. 20), RS Government's funding of Bosnia-Herzegovina Convertible Mark (BAM) 10 million for calendar year 2025 falls far below the World Bank's estimate for partial cost recovery. Thereby, undermining ŽRS's operations and making backlog infrastructure maintenance nearly impossible.

**Outcomes.** The ŽRS working ratio (which is a ratio of operating expenses without depreciation and operating revenues) indicator, at 1,34, fell short of its target of 1 by 49 percent (note: the percentage is calculated after factoring the baseline value of 1.75). This was mainly due to three key factors: (i) decline in annual financial support by RS Government to ŽRS by 60 percent (from BAM 25 million at Project appraisal to BAM 10 million at Project closing), thereby contributing to an increase in operating expenses; (ii) average wage at ŽRS increased by more than 50 percent between Project appraisal and closing, thereby contributing to an increase in operating expenses; and (iii) COVID-19 pandemic severely affected ŽRS operations. Evidence from the ICR (p. 16) shows that passenger traffic volume declined by 57 percent and freight traffic volume declined by 18 percent in the first six months of 2020 compared to 2019, thereby, contributing to reduction in operating revenues.

Based on the evidence provided in the ICR, the Project **modestly** achieved its objective of improving the financial sustainability of the railways in Republika Srpska.



**Rating**  
Modest

## OVERALL EFFICACY

### Rationale

Both the Project objectives are rated modest. The overall efficacy is therefore rated modest. The Project did make important contributions in terms of creating a new organization structure, implementing modernization of financial accounting and asset management, and adopting contracts for output-based subsidies that could help set the stage for commercial viability of ŽRS in future. However, there is limited evidence on achievements of Project outcomes. The key outcome indicators of labor productivity ratio and working ratio related to improved operational efficiency and improved financial sustainability of ŽRS partially achieved their targets at Project closing.

**Overall Efficacy Rating**  
Modest

**Primary Reason**  
Insufficient evidence

## 5. Efficiency

### Financial Analysis

**At appraisal:** The financial impact analysis of the Project covered all the three components (EUR 51.2 million). The financial analysis was based on a model developed by the World Bank at the time of preparation of a Policy Note, Bosnia and Herzegovina Railway Policy Note, in 2016. The inputs/variables for this model included: economic data, for example, inflation; passenger and freight traffic data; operating data driving operating costs; and financial data. For each variable, the financial model compared two sets of assumptions (one for the period 2017-2020 and another for 2020-2040) related to "with-Project" and "without-Project". For example, in terms of workforce restructuring, it was assumed that without the project there would be reduction of 2,000 staff by 2040. Whereas, it was assumed that with the Project this level of staff reduction would be achieved by 2020. The financial benefits to ŽRS would be: (i) reduction in the wage bill due to reduction in ŽRS staff, (ii) elimination of interest rate on ŽRS outstanding debt towards its employees, and (iii) increasing traffic volumes and revenues from improving service levels through implementation of PSO, MAIC, and TAC contracts. The financial analysis at appraisal calculated the benefits for a 20-year period following Project completion (from 2021 to 2040) at a 10 percent discount rate. The financial analysis showed a financial internal rate of return (FIRR) of 14 percent per year and a financial net present value (FNPV) of US\$37 million.

**At completion:** The financial analysis in the ICR used the same financial model as the one used in the Project Appraisal Document except that the forecasts and projections for inputs for "with-Project" and "without-Project" in the ICR were based on the actual data to reflect the situation at ŽRS at Project closing. The financial analysis



in ICR showed a FIRR of 14 percent per year, which is at the same level as FIRR at appraisal, and a FNPV of US\$14 million, which is much below the FNPV of US\$27 million at appraisal.

**Economic Analysis**

**At appraisal.** The economic analysis was undertaken only for the Component 3 (EUR 5.0 million) of the Project. This is because repayment of staff arrears (under Component 1) and redundancy payments to surplus employees (under Component 2) are in economic terms a transfer of funds and not a resource cost of the Project. The resource costs under Component 3 included costs of: consultant services for ŽRS reorganization; and information systems for modernizing financial accounting and asset management at ŽRS. The model assumed that: (i) 30-40 percent of the staff reductions would be through retirement; (ii) 20 percent of the separated employees would be employed elsewhere within a year, 30 percent within 2 years, 35 percent within 3 years, and up to a maximum of 40 percent after 4 years; and (iii) reduction in greenhouse gas (GHG) emissions estimated at 8-10,000 tonnes per annum. The economic benefits included: (a) reduction in operating costs of ŽRS; (b) staff find alternative employment and work on productive jobs after separation from ŽRS; (c) reduced road transport due to increased railway traffic; and (d) savings from GHG. The economic analysis showed an economic internal rate of return (EIRR) of 480 percent and an economic net present value (ENPV) of US\$174 million at 8 percent discount rate.

**At completion.** At Project closure, the staff reduction was mainly achieved through retirement or voluntary separation. The Project did not track the data on the alternative employment obtained by the staff separated voluntarily. The economic analysis in ICR showed an ENPV of US\$101 million, which is much below the ENPV of US\$174 million at appraisal. The ICR did not calculate EIRR because the EIRR at appraisal was unusually high, at 480 percent.

**Operational and Administrative Efficiency.** Operational and administrative efficiency had deficiencies. The closing date of the Project was extended twice, for a total of three years. The Project was restructured twice. During the first restructuring, the extension of the closing date by one year was justifiable because of implementation delays from lockdowns from the COVID-19 pandemic. However, the extension of the closing date by two years during the second restructuring was because of weak capacity of the implementing agency (PIMT), particularly on procurement of consultancy services and information and technology systems, and weak commitment, engagement, and decision making from the government on ŽRS reorganization. In addition, excessive and unplanned staff reductions without a clear strategic staffing plan resulted in operational disruptions during Project implementation.

The Project efficiency rating is **Modest** because financial and economic impacts from the Project at closure were much lower than those estimated at appraisal and operational inefficiencies during Project implementation.

**Efficiency Rating**

Modest

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

Rate Available?	Point value (%)	*Coverage/Scope (%)
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Appraisal	✓	14.00	100.00 <input type="checkbox"/> Not Applicable
ICR Estimate	✓	14.00	100.00 <input type="checkbox"/> Not Applicable

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

## 6. Outcome

With a High rating for relevance of objectives and a modest rating for both efficacy and efficiency, the overall Outcome is rated **Moderately Unsatisfactory**.

### a. Outcome Rating

Moderately Unsatisfactory

## 7. Risk to Development Outcome

The risk to the sustainability of the development outcomes achieved by this Project is as follows:

- **Political risk.** Based on the information in the ICR (p.20, para 84), the financial support from the RS Government, which declined from BAM 25 million at Project appraisal to BAM 10 million at Project closing, is far below the World Bank's estimate for partial recovery - thereby, undermining ŽRS's operations and making backlog maintenance nearly impossible.
- **Increase in minimum wages.** Based on the information in IMF (2025), in 2025, RS Government raised the minimum wages by 5.5 to 44 percent depending on the required level of worker's education. The cumulative increase in minimum wages from end-2019 through January 2025 was 100 percent in RS. These recent increases in minimum wages could contribute to an increase in operating expenses at ŽRS. Thereby, negatively affecting the financial sustainability of ŽRS.
- **Financial risk.** According to the ICR (p. 20, para 83), although passenger rail services account for 51 percent of the total distance covered by trains, revenue from passenger rail services account for only 1 percent of total revenue from ŽRS due to low occupancy and declining ridership. In addition, lack of budget allocation from the RS Government for implementing the PSO contract could negatively affect the financial sustainability of ŽRS.
- **Technical risk.** Based on the information in the ICR (p.20, para 82), outdated infrastructure at ŽRS hampers productivity and limits further workforce optimization. Thereby, negatively affecting the sustainability of Project outcomes related to operational efficiency.

## 8. Assessment of Bank Performance

### a. Quality-at-Entry



The Project objectives were aligned with both CPFs (at appraisal, FY16-20, and at closure, FY23-27). The timing of the Project was relevant because ŽRS was generating operating losses and was financially unsustainable at appraisal. The design of the Project was informed by the Railway Policy Note prepared by the World Bank in 2016. In addition, the financial restructuring component of the Project was underpinned by the Bankruptcy Law, which was prepared with the support of the International Finance Corporation in 2015 and enacted by the Government in 2016. The Project adopted a result-based approach to incentivize the achievement of desired outcomes and to ensure commitment from the RS Government. Several critical risks (related to social, macroeconomic, political and governance, sector strategies and policies, technical design, institutional capacity for implementation, and fiduciary) were identified and appropriately rated as Substantial at appraisal. The scope of the workforce restructuring Project component purportedly focused on staff reductions, in cooperation with the European Bank for Reconstruction and Development, the European Investment Bank, and the European Union - the Western Balkans Investment Framework who planned to advance capital investments in infrastructure and rolling stock (Region's Comments).

However, there were some shortcomings in the design of the project. The project appraisal document did not include adequate measures to mitigate the low procurement capacity risk of the PIMT. There were some shortcomings in M&E including the design of the PDO indicators (refer section 9).

Given these shortcomings, the quality at entry is rated as **Moderately Satisfactory**.

### **Quality-at-Entry Rating**

Moderately Satisfactory

### **b. Quality of supervision**

The amendment to the Law on Railways of RS, which was triggered by the Project and adopted by the RS Government, enabled staff reductions through retirement or voluntary departure without the use of involuntary retrenchment. The Project team provided adequate implementation support and prepared a total of 14 implementation status and results reports (supervision reports) during implementation. In addition, the Project team assisted ŽRS by (i) providing technical assistance to finalize the terms of reference for the procurement of asset management system, (ii) engaging a legal expert to assess and outline the debt-to-equity conversion process, and (iii) providing training on procurement, particularly on selection of consultants, to enhance the capacity of PIMT. However, exogenous factors, particularly COVID-19 pandemic, slowed down Project implementation. For example, during the COVID-19 pandemic, court hearings were stopped for 6 months. Thereby, delaying the implementation of debt-to-equity conversion activity under the financial restructuring component of the Project.

Some of the shortcomings included (i) lack of candor in reporting of ratings by the Project team in the supervision reports. Despite slow disbursement after the first year of implementation, significant procurement issues at PIMT throughout implementation, and weak ratings on implementation progress of the organization restructuring component, the overall implementation progress of the Project was either rated satisfactory or moderately satisfactory in the supervision reports; and (ii) the Project team did not adequately address the significant shortcomings in the PDO indicators (used for measuring operational



efficiency and financial sustainability) by making appropriate changes to the monitoring and evaluation framework during Project restructurings.

Given these shortcomings, the quality of Supervision is rated as **Moderately Satisfactory**.

### **Quality of Supervision Rating**

Moderately Satisfactory

### **Overall Bank Performance Rating**

Moderately Satisfactory

## **9. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

The Project objectives were clearly stated and were addressing the operational and financial inefficiencies that ŽRS was facing at Project appraisal. The output and intermediate indicators in the monitoring and evaluation framework were well-defined and adequately tracked the Project contributions. However, the following were major shortcomings in the monitoring and evaluation design (i) the key outcome indicators (working ratio and labor productivity ratio) were heavily influenced by traffic volumes and therefore, did not adequately reflect some of the important contributions from the Project, for example, debt resolution; and (ii) labor productivity ratio was not a suitable outcome indicator to measure operational efficiency over the long-term because workforce restructuring component only involved staff reductions without any parallel investments to upgrade outdated equipment and rolling stock.

### **b. M&E Implementation**

The outputs, intermediate outcomes, and outcome indicators in the monitoring and evaluation framework were adequately measured and reported by the Project team in the Implementation Status and Results Reports. Bi-annual progress reports prepared by the PIMT included monitoring and evaluation data and status of DLIs, which were monitored by a DLI auditor. However, shortcomings in the PDO indicators (working ratio and labor productivity ratio) in terms of capturing Project contributions and measuring Project outcomes were not addressed by the Project team during the two restructurings.

### **c. M&E Utilization**

It is evident from the first restructuring (September 20, 2021) paper that the monitoring and evaluation findings were communicated with the RS Government. For example, the mission findings from the MTR conducted by the Project team in October 2020 concluded that the Project would not achieve its intended objectives without a closing date extension. In line with this MTR mission finding, the World Bank received a request from the Ministry of Finance to extend the loan closing date. In addition, in



January 2021, the RS Government and the World Bank agreed on a 10-point Action Plan for completing critical activities across all the three Project components.

## M&E Quality Rating

Modest

## 10. Other Issues

### a. Safeguards

**Environmental compliance.** At appraisal, the Project did not have direct environmental impact and therefore did not trigger World Bank safeguards policies with regard to environment. However, a construction work was carried out at ŽRS in December 2024 without the knowledge of the Project team. This could have negatively affected the World Bank's reputation had the construction work not complied with the World Bank's environmental and social requirements.

**Social compliance.** At appraisal, the Project was classified as a Category B project and triggered OP 4.01 related to social risks and impacts of the Project associated with retrenchment under workforce restructuring component. This risk was mitigated during implementation because the amendment to the Law on Railways of RS enabled the Project to reduce staff through retirement or voluntary departure without the use of involuntary retrenchment. A grievance redress mechanism was established and functional. According to the ICR (p. 18), there were 20 pending grievances at Project closing.

### b. Fiduciary Compliance

**Fiduciary compliance.** According to the ICR (p. 18 and p. 19): (i) periodic interim unaudited Project financial statements were submitted punctually and deemed acceptable, (ii) the Project ensured proper documentation of all financial transactions and adherence to budgetary controls, and (iii) regular audits were conducted, with all findings promptly addressed to mitigate risks.

**Procurement compliance.** According to the ICR (p. 19), two procurement related complaints were received during Project implementation and were resolved satisfactorily in line with World Bank procedures.

### c. Unintended impacts (Positive or Negative)

No unintended impact was reported in the ICR.

### d. Other

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## 11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Limited evidence on achievement of Project outcomes.
Bank Performance	Satisfactory	Moderately Satisfactory	Shortcomings in both entry and supervision
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

## 12. Lessons

IEG presents three key lessons from the ICR with some modifications:

- 1. The design of the monitoring and evaluation framework should ensure that the outcome indicators fully capture project contributions and adequately measure project outcomes and impacts.** The Project's monitoring and evaluation framework used standard indicators (to measure operational efficiency and financial sustainability outcomes) that did not adequately capture some of the important contributions from the Project. For example, debt resolution, an important contribution to ŽRS's financial sustainability, was not captured in the outcome indicator used for measuring financial sustainability. In addition, key outcome indicators were heavily influenced by traffic volumes/operating revenues, which were negatively impacted by exogenous events during Project implementation. Also, the labor productivity was not a suitable outcome indicator for measuring operational efficiency over the long-term because the workforce restructuring component focused only on staff reduction without any parallel investments to upgrade outdated equipment.
- 2. Assessing the capacity of the implementing agency early on during the design stage and ensuring realistic implementation timeline are essential for projects focusing on reforming the railway sector in a country.** The original timeline of four years for Project implementation was not realistic given the weak capacity of the PIMT, particularly on procurement. For example, procuring consultancy services was a major issue throughout implementation, resulting in implementation delays of the organizational restructuring component. In addition, capacity constraints in the country was not adequately factored in the Project's design. For example, delays from the RS Government in signing the PSO, MAIC, and TAC contracts and lack of RS Government's decision making in ZRS's new organizational structure contributed to delays in Project implementation. Weak capacity of PIMT and RS Government resulted in extension of the Project's closing date by two years during the second restructuring.
- 3. Designing a disbursement pace that sustains implementation momentum and maintains government engagement and commitment is crucial for projects reforming the railway sector in a country.** The Project adopted a result-based approach to incentivize the achievement of desired outcomes and to ensure commitment from the RS Government. However, the designs of DLIs and DLRs were overly output-oriented. In addition,



disbursements were not adequately spread out across the Project life. For example, 70 percent of the commitment amount was disbursement in the first year of implementation with prolonged slowdown in the remaining years of implementation. While implementation was smooth during the early stages of implementation, momentum was later disrupted by the COVID-19 pandemic and changes in the RS Government. A more balanced disbursement approach that is spread out across the life of the project can potentially help maintain government commitment and accelerate implementation.

### 13. Assessment Recommended?

No

### 14. Comments on Quality of ICR

The ICR is well written and provides a clear background of the country context, the railway sector in RS, and the Project. The narrative in the ICR on identification of key factors during preparation and during implementation is thorough. Also, the lessons are clear, useful, and based on evidence outlined in the ICR. Overall, the quality of the ICR is rated **Substantial**.

#### a. Quality of ICR Rating

Substantial