Report Number : ICRR14194

IEG ICR Review
Independent Evaluation Group

1. Project Data:		**Date Posted :**	11/27/2012	
Country:	Macedonia			
Project ID :	P083499		**Appraisal**	**Actual**
Project Name :	Railways Reform	**Project Costs (US$M):**	19.82	19.10
L/C Number:	L4802	**Loan/Credit (US$M):**	19.38	18.97
Sector Board :	Transport	**Cofinancing (US$M):**	0	0
Cofinanciers :	None	**Board Approval Date :**		09/15/2005
		Closing Date :	10/31/2009	04/30/2011
Sector(s):	Railways (98%); Central government administration (2%)			
Theme(s):	State-owned enterprise restructuring and privatization (29% - P); Infrastructure services for private sector development (29% - P); Improving labor markets (14% - S); Trade facilitation and market access (14% - S); Other public sector governance (14% - S)			

Prepared by :	**Reviewed by :**	**ICR Review Coordinator :**	**Group:**
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2. Project Objectives and Components:

a. Objectives:

The project had one objective as stated in the Project Appraisal Document (PAD): "to improve the financial viability, productivity, and effectiveness of railway operations" (PAD, page 4). This objective was worded in the Loan Agreement (LA) as "to improve the financial viability, productivity, and effectiveness of *the Borrower's* railway operations" (LA, page 11).

The Amended and Restated LAs dated February 21, 2008 state that "The objective of the project is to improve the financial viability, productivity, and effectiveness of [Public Enterprise for Railway Infrastructure, Macedonian Railway] PE MR Infrastructure – Skopje and [Macedonian Railways] MR Transport JSC – Skopje's railway operations" (LAs, page 5). This revision takes into account the restructuring of Macedonian Railways (MR) into two legal successor companies: the Borrower and MR Transport JSC-Skopje, i.e. a rail infrastructure company (MR-I) and a rail transport joint stock company (MR-T). This change was contemplated in the original implementation arrangements (PAD Annex 6, page 38) and spelled out in each Restated Loan Agreement respectively (LA, page 1).

There is no substantive difference between the wording of the project development objective in the PAD and those in the Loan Agreement and the two Amended and Restated Loan Agreements. The change formalizes the agreement of the Bank to extend parts of the Loan to the Borrower and MR Transport JSC - Skopje. The wording of the Project Development Objective that appears in the PAD is used in this review.

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

Yes

If yes, did the Board approve the revised objectives /key associated outcome targets?

Yes

Date of Board Approval: 11/30/2007

c. Components:

The project had four components.

Component 1: Technical Assistance (TA) for restructuring, regulation, preparatory steps for private sector involvement, and implementation capacity building and support (Cost at appraisal US$1.96 million; Cost at closing US$1.10 million). This component consisted of: (i) staffing and cost reduction study; (ii) transport company privatization study with advisory services; (iii) a Public Service Obligations (PSO) study; (iv) a track access charge study; and (v) office computers, equipment and furniture, software, training and seminars, financial management and procurement TA, and project financial audits.

Component 2: Social mitigation (Cost at appraisal US$0.84 million; Cost at closing US$0.04 million). This component consisted of: (i) employment services for retrenched staff such as: (a) social, psychological, and financial counseling; (b) one-to-one consultation to determine the most appropriate training; and (c) financing through vouchers of staff training at selected institutions; and (ii) furniture and equipment for the Skopje Labor Bureau (SLB).

Component 3: Increasing Operating Capacity (Cost at appraisal US$10.09 million; Cost at closing US$ 10.83 million) of MR-Transport: The component consisted of: (i) re-manufacturing and retrofitting of two electric locomotives; (ii) re-manufacturing and retrofitting of two four-unit Electric Motor Unit (EMU); (iii) procurement of two shunting locomotives; (iv) retrofitting of sixty wagons to handle new steel traffic; and (v) procurement of twenty new flat bedwagons.

Component 4: Mechanization of track maintenance and Infrastructure modernization (Cost at appraisal US$6.80 million; Cost at closing US$7.13 million) for MR-Infrastructure. The component consisted of: (i) supply and installation of a Central Traffic Control (CTC) system; (ii) track mechanized maintenance equipment, i.e., sleeper replacement, reballasting, and tamping machines; (iii) heavy rail vehicles; (iv) other equipment, i.e., loader trucks and track machine for catenary service; (v) building inventory of rails, sleepers, and switching parts; and (vi) capacity allocation and information system for infrastructure.

There were no changes made to the project components.

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

Project Costs. According to the Implementation Completion Report (ICR), the total cost of the project was reduced from US$19.82 million at the time of appraisal to US$19.10 million at closing.

Project Financing. Total financing was estimated at US$19.35 million at appraisal. Restructuring of the project took place on February 21, 2008 with no change to financing. US$0.39 million were cancelled at project closure mainly with regards to the financing of MR-T, therefore bank financing was reduced from US$19.35 million to US$18.96 million.

Borrower Contribution. The actual Borrower contribution was recorded as US$0.18 million versus an original amount envisaged of US$0.52 million. No explanation for the reduction is given in the ICR.

Dates. The project was originally scheduled to close on October 31, 2009 but the final closing date was extended by 18 months until April 30, 2011. This extension was needed to accommodate the additional time it took for the restructuring, and the additional time required for expenditures on physical investments. Expenditures on physical investments were only allowed until the restructuring took place in a manner satisfactory to the Bank. Thus, additional time was needed to procure, produce and accept the wagons for the MR-T, which required a six-month extension of the project and were only accepted by project closing.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

The project supported the Bank's 2003 Country Assistance Strategy (CAS), and the adoption of a new Railway Law and Railway Model adopted respectively by the Parliament of Macedonia in April and July 2005. The project supported this strategy with regards to the implementation of provisions of the two laws, establishment of the two MR-T and MR-I companies, and improvement of their operational and financial performance. The decision of the Government not to continue with privatization reduced the scope of the Bank's support in this area and in the introduction of open access, but the objectives remained relevant and in line with the public sector structure of railway sectors in the EU (European Union).

The objective remained relevant during the period FY07-10, as the Country Partnership Strategy (CPS) for this period aimed to accelerate Macedonia's joining the European Union. The support of the project in reaching compliance with EU Directives was instrumental in preparing the railway companies for future EU accession, and as a result, the railway system is in conformity with EU accession requirements. The project continued supporting the Bank's current CPS for the period FY11-14, which was designed to further help prepare Macedonia for EU membership.

Overall, the relevance of the project objective was **substantial**.

b. Relevance of Design:

The project design had an appropriate balance between technical assistance for restructuring and capacity building, investments in new and refurbished rolling stock and track maintenance and upgrading, and assistance for implementation of the retrenchment plan. It aimed at: (i) privatizing rather than just restructuring parastatals; (ii) implementing independent and effective regulation before restructuring takes place; and (iii) supporting an adequate staff retrenchment program and social mitigation plans. It also stipulated that any expenditures on physical investments would only be allowed after successful restructuring had taken place. This created an incentive for the Government to complete the restructuring.

The results framework reflects the linkage between the physical components of the project with intermediate results and the overall project objective. The link between the technical assistance for restructuring and capacity building component and intermediate results is adequately made. The impact of project activities on institutional, operational and financial capacity of the railways is stated clearly.

Overall, the relevance of the design is rated **substantial**.

4. Achievement of Objectives (Efficacy):

1. Improve financial viability of railway operations. **Modest.**

Outputs

- Two independent railway companies were established as successors to Macedonian Railways—Macedonian Railways Infrastructure (MR-I), a public enterprise, and the joint-stock company Macedonian Railways Transport (MR-T). The separation of accounts between the infrastructure manager and the rail undertaking is ensured through the legal separation into two companies, and the separation of accounts between passenger and freight services within MR-T was started in 2010, following the decision of the management committee in late September 2010 to divide passenger and freight accounts.
- A number of Laws were prepared and adopted which paved the way for the establishment of the independent companies, including a Law on the railway system, on contracts for carriage by rail, and on inter-operability within the rail system. All Laws were in conformity with European Union regulations.
- Three year business plans were prepared by both entities in early 2011, and a multi-year contract was negotiated in the Spring of 2011.
- A Regulatory Railway Agency was established in 2009 after the passage of the appropriate Law and consists of four staff. There is a Steering Board of four people appointed by Parliament. The Railway Agency is responsible for licensing operators and infrastructure managers, appeals, and overseeing quality of services.
- Track access charges have been formally introduced following completion of a project-financed study, and these charges are now being paid by MR-T to MR-I. However, the actual charge following negotiations involving the two companies and the Government was set at less than half that recommended by the study.
- A cost-reduction study was supported by the project, and its recommendations accepted by MR-I. On the basis of the recommendations, the company developed a cost-cutting plan involving reduction of the network through closure of a number of lines. However, this proposal was not accepted by MR-T, which would have been under the obligation to eliminate services and significantly reduce its work force.

Outcomes

- The combined working ratio* of MR-I and MR-T dropped from 124% in 2004 to 105% in 2011, but was still considerably higher than the target value of 80%. The project delivered about half the expected reduction of the working ratio.
- The revenues from collection of the track access charge, together with the subsidy from the state were expected to cover all operating costs of MR-I; however, in the last two years, the contribution from the national budget was reduced due to the constraints imposed by the global crisis and all costs were not covered.

**The ratio used to measure a company's ability to recover operating costs from annual revenue. It is calculated by taking the company's total annual expenses (excluding depreciation and debt-related expenses) and dividing it by the annual gross income*

2. Improve the productivity of railway operations. **Substantial.**

Outputs

- A staffing and labor cost reduction study was produced in 2007-2008. However, the ICR reports (page 19) that it was of low quality, and an improved version was prepared in 2009. The recommendations of the study have not been applied. Although, by law, severance payments are paid by the State, in this case the Government informed the two railway companies that retrenchment costs would need to be covered from their budgets. The companies reacted by asking for volunteers for early retirement, but, according to the ICR (page 19), these were not many.

- The project's social and mitigation component, which was envisaged to provide a variety of training and employment services to retrenched staff, was only partially implemented, and "experienced very significant delays" (ICR, page 20). The two main difficulties related to the Skopje Labor Bureau (which did not have the capacity to provide social, psychological and financial counseling, comprehensive training and support to the retrenched workers) and to the time consuming procurement of staff training, which was done on an individual basis.
- 688 employees were laid off in May, 2005, prior to the approval of the project. Of these, 153 participated in interviews about future employment prospects elsewhere, 93 expressed interest in receiving training, and 43 completed the training courses offered. No further retrenchment occurred after 2005. The additional retrenchment of about 400 staff, which had been agreed at appraisal, was not implemented as the global economic crisis impacted significantly the Government's ability to afford compensation payments to staff. The 2005 retrenchments were not based on a thorough analysis of labor and skill requirements. The cuts were made across the board and, combined with a hiring freeze imposed by the Ministry of Finance, led to skill shortages, especially in traffic signalling and overhead cable maintenance.

Outcomes

- Despite the mixed results in terms of retrenchment, labor productivity expressed through the traffic units/staff ratio increased to 232,320 in 2010 from 144,084 in 2004, almost reaching the target of 240,000.
- The traffic units/staff ratio had in fact already surpassed the 2010 target of 240,000 in 2007 when it reached 304,184. This was thanks to faster than anticipated traffic growth which the system was able to absorb largely without the interventions supported by the project, most of which were completed two to four years later.
- The ratio dropped slightly to 293,962 in 2008. 2009, however, saw a sharp decline to 218,237 due mainly to the effects of the international economic and financial crisis which slowed traffic growth, and, as noted above, reduced the fiscal space for further compensation payments. In 2010, there was a return to increasing productivity with the traffic unit/staff ration improving by 6.5% to 232,320.
- Although the objective of improving the productivity of railway operations over the project period was achieved, labor productivity remains at below 40% of European Union levels, indicating the need for intensified future efforts.

3. Improve the effectiveness of railway operations. **Substantial.**

Outputs

- New rolling stock was acquired and existing equipment modernized. Two electric locomotives and two four-unit electric motor units were re-manufactured and retrofitted, two shunting locomotives were procured, and four diesel locomotives were retrofitted, modernized and put into operation. 60 wagons to handle new steel traffic were retrofitted, and 36 new flat bed wagons were acquired, albeit with considerable delays forcing a six month extension of the closing date.
- Track maintenance and infrastructure were modernized. Rails and sleepers procured under the project were installed in critical sections of the track. New maintenance machines, service vehicles and highway-rail vehicles allowed for mechanization of track maintenance work, making it more efficient and safer.
- A Railway Management Information System was installed in 2010 and is managed by the maintenance department of MR-I. Collection of data was started in the Fall of 2010 and data migration to the new system completed by April, 2011. Training was provided on the use of the system and on data collection and analysis.
- A Central Traffic Control System was installed in 2010 to upgrade the interlocking system and to enhance traffic control with a view to improved safety and more efficient traffic flows. The System was still at the testing stage at the time of ICR preparation.
- A Safety Agency was established under the Ministry of Transport and Communications, and a new Safety Law approved in April, 2010. The Agency is responsible for technical specifications for inter-operability and technical inspections as well as for overall safety.

Outcomes

- Operating capacity of MR-T increased to 3.09 million tons by 2010 from 2 million tons in 2004, meeting the target of 3 million tons. Temporary speed restrictions were reduced from 30% of the track length in 2004 to 13.2% in 2010, slightly above the target of 10% of track length.

5. Efficiency:

At appraisal, the Financial Rate of Return (FRR) of the project was estimated at 16% using a discount rate of 12%. There was no estimation of the Economic Rate of Return. The ICR notes that the ex-post FRR cannot be calculated due to inadequate information on assumptions behind the original benefit calculations. But given that project benefits from incremental freight revenue, labor cost savings and other operating cost savings were late in being realized, it is assumed that the FRR at closure was actually lower. Indeed, companies' revenues increased by 35% during 2004-2009 while costs increased by 60% over the same period.

The actual investment costs of track maintenance mechanization and infrastructure modernization were about 5% higher than the appraisal estimate. This increase is moderate considering the implementation took eighteen months longer to complete and the purchase of equipment took place right at the very end of the project, some five years after the costs were estimated at appraisal.

Overall, efficiency us rated **modest**.

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

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	16%	100%
ICR estimate	No		

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

6. Outcome:

Relevance of objectives and relevance of design are both rated substantial. Efficacy of two of the project's development objectives is assessed as substantial. Labor productivity improved over the life of the project; although there was a decline in 2009, reflecting the impact of the global crisis, productivity showed a return to an improving trend in 2010. Moreover, there is evidence that the project did impact favorably upon the system's effectiveness (which is where the bulk of project-financed investments were directed), and attainment of this objective is also rated substantial. However, the railway system's financial situation, as measured by the working ratio, did not improve as intended and efficacy of this objective is assessed as modest. With efficiency rated modest, overall outcome is assessed as **moderately satisfactory**.

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

It is likely that the reform process in the railways will continue since: (i) EU requirements were adopted and are unlikely to be reversed in light of the expectations for EU accession; and (ii) the ongoing European Bank for Reconstruction and Development (EBRD) project supports the continuation of reforms initiated by the project.

The risk to the development outcome rating is, nevertheless, assessed as moderate because some risk remains that inefficiencies in the management of MR-T operations, including high staffing levels, will continue creating losses and mounting debt, which would in turn impact on the working ratio and labor productivity of the transport company. Given that the old historical debt of both companies was only written off in 2009, and that since then the MR-T has continued to accumulate further debt, the financial situation of the company is precarious. MR-I's financial viability has a better outlook than for MR-T particularly if a more suitable depreciation method is implemented as suggested in the asset valuation report financed by the project.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The project, which did not benefit from a Quality at Entry Review, had the challenge of helping transform a rail sector that was heavily in debt with declining operational capacities into one that would be operating more efficiently within policy, legal and institutional arrangements that are in conformity with EU Directives. The Bank played a key role and brought considerable expertise to this debate. The project relied on several years of policy dialogue on reforming the railways. It also incorporated the lessons learned from previous operations in Eastern Europe and elsewhere. During preparation the team relied on a strong team of specialists to recommend the reform options most suitable for MR.

Several areas of risk for project implementation were properly identified: (i) insufficient political will and/or institutional weakness to undertake the reform; (ii) social resistance to the retrenchment of staff; and (iii) insufficient infrastructure maintenance funding or government financing of passenger services. While the risks were appropriately identified, the project design could have provided stronger measures to mitigate the risks in line with similar railway restructuring operations financed by the Bank particularly in Africa. The PAD gives the impression that the key aspects of the reform program including privatization and staff redundancies enjoyed the support not only of MR, but also of the government. However, when implementation started, it was precisely these components that were not politically acceptable. With this caveat, the project was well designed. The background analysis was sound, and the risks were assessed, except for the inability of Skopje Labour Bureau (SLB) to implement the social aspects of the retrenchment plan.

Despite appropriate identification of technical and institutional aspects at appraisal, as well as of risks, there were two shortcomings in the Bank's performance in ensuring quality at entry: (i) the actual legal mandate and capacity of Skopje Labor Bureau to implement social mitigation actions for retrenched staff was not assessed during project preparation and turned out to be low; and (ii) support for financial management strengthening for both MR-T and MR-I including financing the acquisition and implementation of accounting software, as well as analysis of financial and operational data was not included in the project with evident drawbacks during implementation - including disclaimers of opinion or heavily qualified opinions by Ernst & Young and Grant Thornton, the respective auditors of the MR-T and MR-I companies.

Considering the complexity of the reforms envisaged and the extent of Bank support to these reforms, Bank performance at entry is assessed as moderately satisfactory.

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

This was a complex and difficult project to supervise. The Bank conducted extensive supervision and benefitted from a good project design to start with.

According to subsequent comments from the project team, "the Bank team regularly stressed throughout project implementation (as captured in the various project supervision documents) the negative impact of high staff levels on the performance indicators."

There were, however, shortcomings with the Bank's supervision of the project. High Task Team Leader (TLL) turnover resulted in five TTLs being responsible for this project in a five-year period. This impacted on the depth of sectoral expertise available to supervise complex railway restructuring and privatization reforms, and to sustain effective dialogue with the government. The Bank did not follow up on a timely manner to speed up implementation particularly on the definition of terms of reference for key studies on retrenchment/cost reduction, access charges, and Public Service Obligation, and regarding clarification of M&E indicators. More importantly, the Bank: (i) did not recognize the need to restructure the component of social mitigation for retrenched staff and as a result the benefits from this component were negligible; and (ii) did not insist on the need to hire an international procurement expert to support the railways on complex procurement processes, and severe delays occurred.

Quality of Supervision Rating : Moderately Unsatisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The Government, though a high-level steering committee, remained quite supportive of the reform and approved the necessary legislative and regulatory frameworks for restructuring. In particular:
(i) MR was split into a rail infrastructure company and a rail transport company, with almost 700 staff reductions made during project preparation;
(ii) the railway infrastructure is now open to use by private operators with a Track Access Charges system introduced;
(iii) the MR-I has published the Network Statement describing the transport services available, the characteristics of the railway network, the level of track access charge, and the conditions for contracting transport services on the railway infrastructure in compliance with EU Directives;
(iv) the basis for the payment by the Government for track access charges for passenger services provided by MR-T through public service contracts has been defined and is under implementation;
(v) a number of additional new legislation have been adopted con transport safety, contracts for carriage by rail, transport of dangerous goods, and for the creation of the independent regulatory Railway Agency that should

lead to a more commercial approach to the provision of rail services in the country;
(vi) a safety agency and an independent regulatory agency for rail services have been established and a detailed action plan as been produced on key steps for deepening the reform.

The two cornerstones in project design were not delivered by the government: privatization and further staff retrenchment. Focus on restructuring rather than privatization was an acceptable step at the time, considering the absence of privatization in European railways. But the government gradually lost its focus on further labor reforms and on the companies' operational and financial efficiency. The lack of commitment to further staff retrenchment and the borrower's inability to prevent cost escalation resulted in an unfinished reform agenda. Also, the government did not implement the comprehensive management training program.

Government Performance Rating Moderately Satisfactory

b. Implementing Agency Performance:

Up until the restructuring, the project was implemented by MR along with a joint Project Implementation Unit (PIU) set up under the Ministry of Transport and Communications. Implementation was managed by project coordinators supported by fiduciary staff. The placement of an experienced international procurement advisor at MR did not take place and as a result severe delays occurred with procurement processes. After restructuring there were two implementing agencies, MR-T and MR-I along the PIU. Performance was uneven with MR-T exhibiting implementation problems.

Implementing Agency Performance Rating : Moderately Unsatisfactory

Overall Borrower Performance Rating : Moderately Satisfactory

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

a. M&E Design:

The M&E framework consisted of a mix of output indicators and intermediate outcome indicators. The design of the M&E system was good and covered the project activities, outputs and outcomes well. The M&E indicator to measure financial viability is the working ratio, which measures a company's ability to recover operating costs from annual revenue. The Bank excluded subsidies from the definition of this ratio. Although this indicator implies an increase in operational efficiency, it is dependent on other factors (such as decisions to continue to provide loss-making non-core services). A second indicator such as unit revenue for passenger and freight services would have been useful to complement the indicator on financial viability.

b. M&E Implementation:

The Monitoring and Evaluation (M&E) system was not implemented well enough to support the collection and analysis of key performance indicators of the project. The recording and interpretation of project indicators was inconsistent. Financial analysis required to derive the working ratios indicators for MR-T and MR-I companies were not always performed.

The initial project development objective indicator target of 80% for working ratio was supposed to be applied to the combined result of MR-T and MR-I and did not have any individual targets per company. The outcome indicator on labor productivity was also originally defined as a combined indicator for both companies. This presented difficulties during monitoring and originated persistent complaints by MR-I insisting on the individual recording of data and disagreeing on the definition and on whether subsidies should be included. There was no official revision of the indicators, although in practice the companies modified the definition of the indicator and stated recording the data individually.

The ICR states that numerous differences were found in the financial and operational data reported during project supervision in the various documents used during supervision. Supervision reports stated that the original definition of the working ratio was no longer valid, and the Bank requested a reassessment of the indicators in October, 2009..

c. M&E Utilization:

The ICR does not present any evidence of M&E data utilization for anything else besides reporting to Bank during implementation. However, the project team subsequently informed IEG that the M&E indicators "were extensively used in discussions during missions with railway management and Government, particularly related to factors affecting the railways' performance. The M&E indicators were internalized when the railways introduced the track access charges and the public service obligation. The M&E indicators were also specifically discussed with Government when the debt forgiveness to MR-T was being considered."

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:

The project was aimed at facilitating the organizational, labor, and financial restructuring and privatization of MR. There were no environmental or safeguard issues of concern as the project did not involve major investments on civil works. Physical works concerned maintenance and modernization of rails and had no safeguard issues. Environment Category "B" was appropriate and only triggered the safeguard policy concerning Environmental Assessment (OP 4.01). The ICR contains no information on whether an Environmental Management Plan was prepared or whether it was implemented. There is only a broad statement (page 7): “The project did not finance any civil works and there were no issues with environmental or social safeguards resulting from physical works.”

b. Fiduciary Compliance:

Quarterly financial monitoring reports were submitted on time on a regular basis and were of satisfactory quality. However, major concerns arose from disclaimers of opinion or heavily qualified opinions by Ernst & Young and Grant Thornton, the respective auditors of the MR-T and MR-I companies, on the annual audited project financial statements. More specifically, no audit opinion was passed on MR-T's statements for 2008-2010 or for MR-I's statements for 2009-2010. A qualified opinion was passed for MR-I for 2010. The ICR does not mention any evidence of the Borrower and the Bank ever trying to work out an action plan to remedy the issues as per the auditor's recommendations.

The financial management rating during supervision was not downgraded on the basis of the qualified audit opinion, because traditional financial management supervision by the Bank is adequate for supervision of expenditures under a project and not of company-wide issues.

c. Unintended Impacts (positive or negative):

None.

d. Other:

None.

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance :	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

Undertaking Privatization: There is a need to recognize the time necessary to complete the process of restructuring and privatization which entails staff retrenchment. This factor is often underestimated by transaction advisors and governments. During the preparation of a project that involves significant policy reform and sector restructuring, potential resistance to change by stakeholders needs to be clearly identified and the risk of failure realistically addressed in the project design.

Capacity building: In the context of railway restructuring, institutional development and capacity building are critical factors to ensure sustainability during implementation and after project completion. A technical assistance component should be included in the design of similar projects in order to provide appropriate assistance to the restructured agencies during project implementation.

Monitoring Indicators: Monitoring should include performance indicators that are not too ambitious and can be monitored given the data availability/collection limitations. The Teams needs to pay careful attention to the definitions of the indicators and formally revise them when required. Systematic analysis of financial and operational performance of railway operations during implementation is required to properly understand the pace of reforms and inform decision makers on possible strategic redirection and resource allocation.

Financial Management : Bank's traditional financial management supervision is not sufficient when the client is a company. The Bank should consider a more comprehensive supervision including financial management of the company, and not just of the financial management framework covering expenditures under the project.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR was well-written and analytical. It was also very candid and realistic about the project. Less implementation narrative and a stronger focus on outcomes would have been useful. The ICR contains no almost no discussion of compliance with the Environmental Assessment safeguards policy that the project triggered.

a.Quality of ICR Rating : Satisfactory