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Title: ROADS PROJECT

Author: ENN VASUB

Ext.: 57022 Room: H11011 Dept.: EC2JN

**Report No. P-5888-POL**

**MEMORANDUM AND RECOMMENDATION**

**OF THE**

**PRESIDENT OF THE**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**TO THE**

**EXECUTIVE DIRECTORS**

**ON A**

**PROPOSED LOAN**

**IN AN AMOUNT EQUIVALENT TO US\$150 MILLION TO**

**THE REPUBLIC OF POLAND**

**FOR A**

**ROADS PROJECT**

**FEBRUARY 11, 1993**

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## CURRENCY EQUIVALENT

Currency Unit - Zlotys (ZL) (average rates)

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
US\$1 = ZL	503	6500	9500	11458	13500 (July)

## WEIGHTS AND MEASURES

<u>Metric System</u>	<u>US System</u>
1 meter (m)	3.2808 feet (ft)
1 kilometer (km)	0.6214 mile (mi)
1 square kilometer (km <sup>2</sup> )	0.3861 square mile (mi <sup>2</sup> )
1 metric ton (m ton)	0.9842 long ton (lg ton)
1 kilogram (kg)	2.2046 pounds (lbs)

## ABBREVIATIONS

AADT	=	Annual Average Daily Traffic
BPRSD	=	Road Network Planning Bureau
COCOM	=	Coordinating Committee for Multilateral Exports
CTC	=	Centralized Traffic Control
DODP	=	Regional Administration of GDDP
ERR	=	Economic Rate of Return
FYR	=	First Year Rate of Return
GDDP	=	General Directorate of Public Roads
GNP	=	Gross National Product
GOP	=	Government of Poland
IBDM	=	Institute of Road and Bridge Research
LOT	=	Polish Airlines
MIS	=	Management Information System
MTME	=	Ministry of Transport, and Maritime Economy
NBP	=	National Bank of Poland
PEKAES	=	International Road Freight Company
PKP	=	Polish State Railways
PKS	=	National Road Transport Enterprise
PMS	=	Pavement Management System
PMU	=	Project Monitoring Unit (MTME)
POL	=	Polish Ocean Lines
PSK	=	Polish Domestic Freight Forwarders
SHRP	=	Strategic Highway Research Program
TA	=	Technical Assistance
TM	=	Traffic Management
TMIS	=	Transport Management Information System

## POLAND - FISCAL YEAR

January 1 - December 31

POLAND  
ROADS PROJECT

Loan and Project Summary

**Borrower:** Republic of Poland

**Executing Agency:** Ministry of Transport and Maritime Economy, and  
General Directorate of Public Roads

**Amount:** US\$150 million equivalent

**Terms:** 17 years maturity with 5 years grace at the Bank's standard  
variable interest rate.

**Financing Plan:**

	<u>Foreign</u>	<u>Local</u>	<u>Total</u>
	-----US\$ million-----		
Government	0.0	146.8	146.8
IBRD	150.0	0.0	150.0
Total	150.0	146.8	296.8

**Economic Rate of Return:** About 20%

**Staff Appraisal Report:** Report No. 11226-POL

**Map No.** IBRD 23783

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSED LOAN IN AN AMOUNT EQUIVALENT TO US\$150 MILLION  
TO THE REPUBLIC OF POLAND  
FOR A ROADS PROJECT**

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of Poland for the equivalent of US\$150 million, in support of a Roads Project. The loan would have a term of 17 years, including a grace period of 5 years at the standard variable interest rate.
2. **Background:** Poland's transport sector is in the midst of a complete restructuring which aims at the breakup of the old monopolistic organizations and the implementation of a new transport policy aimed at more efficient transport based on increased competition. To this end many of the former monopolistic enterprises have been broken up into smaller parts, restrictions on access to the markets have been removed, tariffs have been freed from Government controls and subsidies have been reduced. Substantial progress has been achieved; operating subsidies to transport enterprises have been reduced to a third of their 1989 level, tariffs have been raised to better reflect costs and private trucking companies have developed rapidly. Half of all trucks are now privately owned, which provides real competition both within the trucking industry and also to the railways.
3. Road traffic has shown a spectacular increase during the past 20 years. Since 1970 the number of cars has increased more than 10 times, although car ownership, now at a level of 124 cars/1000 inhabitants, is still only one third of Western European levels. During the past 5 years the annual growth rate has been 7-8% and the average growth in traffic on the national road network was 4% per year. On the main network, traffic increased at a rate of 7% per year. Due to Poland's difficult budget situation, funding for roads has decreased steeply over the last few years, with the total GDDP budget of 1991 being a third of what it was in 1987. This has created a significant backlog of maintenance and rehabilitation. With the continuing increases in traffic, road accidents have increased and Poland now has one of the highest per capita rates of highway fatalities in Europe. There is also an urgent need to plan for the future construction of urban by-passes and motorways. The present project addresses priority needs of the national road network and its administration.
4. **Previous Bank Involvement in the Sector:** The Bank has been involved in the sector since the late 80's. The ongoing First Transport Project (Loans 3193-PO and 3194-PO, US\$4.8 and US\$145.0 millions respectively, Staff Appraisal Report 8431-POL of April 5, 1990) aims to support the restructuring of the sector through developing more efficient

internal management systems and maintenance procedures, together with the financing necessary to support this. The project has concentrated heavily on the Polish Railways, with a smaller component going to the Highway Administration for the establishment of a Pavement Management System which includes the supply of field measurement equipment and computers as well as the supply of laboratory equipment for better on-site quality control of works. The project is progressing well, with policy reform and restructuring being implemented faster than foreseen and with disbursements well ahead of schedule. The steady progress of the ongoing project has demonstrated that it is possible to achieve meaningful and reasonable results in the sector, based on a clear understanding between the parties on the necessity of the measures proposed.

5. Rationale for Bank Involvement: Poland's economic reform program both requires and drives the restructuring and modernization of the transport sector. As the necessary public and private actions are complex and time-consuming, they need to be viewed as a long-term process, which will be constantly modified and needs to be supported over the long run. The Bank's strategy of assistance to Poland focusses on the redefinition of the role of the state in the economy, including establishment of a Government role and capacities appropriate to a more market-oriented economy, and privatization. Through this proposed project, the Bank will help put this strategy into practical operation in the roads sector. Through sector and project work, the Bank is also helping to mobilize additional sources of finance for the sector, in the context of sound sectoral and fiscal policies.

6. Project Objectives: The main objective of the project is to support and speed up the modernization and transformation of the sector along the lines described above, with special emphasis on the national road network and the administration responsible for it, GDDP. In particular the project would: (i) help improve the road network; (ii) continue the Bank's support started in the first Transport Project for the development of modern management tools in GDDP; (iii) help develop a private construction industry and introduce competitive bidding for road works; (iv) improve the road safety situation; (v) and initiate the development of modern combined transport systems. In order to achieve these objectives, the project will address questions like GDDP's budget, evaluation and selection of investments, and road safety.

7. Project Description: (a) Policy. The Government will develop and implement policies covering: adequate maintenance and strengthening of high-priority roads, including bridges; road safety; planning, project evaluation and investment selection techniques and competitive bidding procedures for carrying out of works. (b) Investments and Institutions. A portion of GDDP's 1993-95 investment program in the following areas would be financed from the loan: rehabilitation, upgrading, realignment or resurfacing of priority road sections, emergency bridge reconstruction and repair, road safety measures; TA, studies and training of GDDP and contractors' staff; TA and equipment for a road safety program; and a pilot project for the development of combined transports through the establishment of a

company, comprised of existing transport enterprises, which would operate a number of terminals and assume responsibility for door to door transport.

8. **Project Implementation:** The project would be implemented through MTME and GDDP. The Bank's first transport project has already developed some implementation and procurement capacity in GDDP. Further development of this capacity is part of the project. Sample bidding documents for works are being prepared, and it is intended to prequalify contractors for bidding before loan negotiations. The Road Safety and the Combined Transport Pilot Projects will be administered through MTME.

9. **Project Sustainability**

The project is considered to be sustainable. The institutional development is well underway, in part through the ongoing project and in part through actions started during the preparation of the proposed project. The risks associated with institutional development are therefore small. With respect to financial constraints, see para. 13, Risks, below.

10. **Actions Agreed:** During loan negotiations, confirmation/agreement were reached on the following:

- (i) Government to have prepared a restructuring/privatization plan for former GDDP road and bridge construction enterprises and for the former PKS road transport enterprises to be discussed with the Bank not later than December 31, 1993;
- (ii) MTME to prepare a policy statement on axle load policy by June 30, 1994;
- (iii) all major GDDP investments (US\$5 million or more) regardless of financing source, to show an ERR of not less than 12%;
- (iv) first year's road/bridge works program;
- (v) methodology for bridge reconstruction/rehabilitation economic evaluation;
- (vi) Terms of Reference for Technical Assistance and Training;
- (vii) Road Safety Action Plan and administrative arrangements for road safety;
- (viii) cost estimates;
- (ix) financing arrangements and availability of sufficient and timely counterpart funds and that Government will:
  - (a) make best efforts to gradually increase, in accordance with budgetary capabilities, expenditures for national road maintenance in a manner and to levels that are technically and economically justified; and

(b) ensure that budgetary expenditures for national road maintenance in 1993 and thereafter, will be given the highest priority within GDDP's budget, and that investments, except in emergencies and other specially justified circumstances, will be undertaken after the above mentioned priority is satisfied;

- (x) Road Sector Development Statement and Annual Consultations;
- (xi) arrangements and format of quarterly and audit reports;
- (xii) format of contracts and ICB documentation; and
- (xiii) Special Account and disbursement conditions.

11. **Environmental Considerations:** The project has been classified as a "B" under OD 4.00, Annex A, for the road modernization component, meaning that limited environmental review will be required. The civil works are generally improvements to existing roads on their existing alignments; in most cases they will bring improvements to drainage, less dust and noise, and increased traffic safety. The Polish Ministry of the Environment has established strict procedures for reviewing the environmental impact of highway projects which are administered by the environmental departments of the voivodships. The legislation establishes levels of review appropriate to the class of works proposed, ranging from a review of the design report and drawings through to a full EA, which is required in the case, for example, of bypasses on new alignments. The appraisal mission has determined that these procedures are similar to the Bank's and that EAs will be (and in some cases already have been) prepared in all the circumstances in which the Bank would require one. Thus the Bank can have confidence that compliance with these procedures will also bring compliance with the Bank's. There is already considerable environmental awareness in Poland, and the power of the voivodship (provincial) administrations to exercise control over central government agencies is used. For this reason it has been agreed that an environmental clearance with a copy of the EA, if so required, will be a condition of the Bank's No Objection to invitations for bids.

12. **Projects Benefits:** The project will: (i) reduce vehicle operating costs; (ii) reduce future costly reconstruction by timely and adequate maintenance; (iii) reduce road accidents; (iv) contribute to reduced road construction costs by exposing the local construction industry to competitive bidding procedures; and (v) make a start to developing combined transports in Poland. Based on experience from similar projects elsewhere, an ERR of about 20% can be expected for the type of works included in the project.

13. **Risks:** The main risk is the availability of adequate local funds, which are presently insufficient. The fiscal pressures in Poland are likely to remain such that careful evaluation of priorities and ongoing discussions on inter and intrasectoral budgetary trade-offs will continue to be an essential element of Poland's cooperation with the World Bank. More specifically in the transport sector it is recommended that GDDP's budget be annually

reviewed and agreed with the Bank. This same agreement would also address another potential risk, viz. the sometimes expressed opinion that Poland should initiate a crash program of motorway construction, even at the expense of maintaining the existing network.

14. Recommendations: I am satisfied that this loan would comply with the Articles of Agreement of the Bank, and I recommend that the Executive Directors approve the proposed operation.

Lewis T. Preston

President

February 11, 1993  
Washington, D.C.



SCHEDULE A

POLAND

ROADS PROJECT

Estimated Costs and Financing  
(US\$ million)

Estimated Costs:

Component	Foreign	Local	Total
Road & Bridge Works	140.9	143.9	284.8
Project Management	0.6	0.2	0.8
Institutional Development	1.5	0.1	1.6
Road Safety Program	5.0	2.6	7.6
Combined Transports	2.0	0.0	2.0
Grand Total	150.0	146.8	296.8
(of which contingencies)	(13.9)	(13.5)	(27.4)

Financing Plan:

	Foreign	Local	Total
Government	0.0	146.8	146.8
IBRD	150.0	0.0	150.0
TOTAL	150.0	146.8	296.8

**POLAND****ROADS PROJECT****Procurement Method  
(US\$ million)<sup>a/</sup>**

<b>COMPONENT</b>	<b>ICB</b>	<b>(loan)b/</b>	<b>OTHER</b>	<b>(loan)</b>	<b>NBF e/</b>	<b>TOTAL</b>	<b>(loan)</b>
<b>Civil Works</b>	266.9	133.4			10.4	277.3	133.4
<b>Consultant Serv.</b>			8.0 d/	8.0	-	8.0	8.0
<b>Equipment and Materials</b>	4.5	4.5	0.8 c/	0.8	-	5.3	5.3
<b>IDTA</b>			2.6 c/	2.6	2.9	5.5	2.6
<b>Training</b>			0.7 d/	0.7	-	0.7	0.7
<b>TOTALS</b>	271.4	137.9	12.1	12.1	13.3	296.8	150.0

a/ including contingencies and taxes

b/ figures in (loan) column are amounts to be financed from loan.

c/ International shopping

d/ in accordance with Consultants' guidelines

e/ Not Bank financed

**DISBURSEMENT BY CATEGORIES**

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
Civil Works	119,150,000	50%
Equipment and Materials	4,850,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 50% of local expenditures for other items procured locally
Consulting services and technical assistance	10,000,000	100%
Training	800,000	100%
Unallocated	15,200,000	
<b>TOTAL</b>	<b>150,000,000</b>	

**ESTIMATED DISBURSEMENT SCHEDULE**  
(US\$ million)

IBRD FY	94	95	96	97	98	99
Annual	15	30	36	30	24	15
Cumulative	15	45	81	111	135	150

SCHEDULE C

POLAND

ROADS PROJECT

Timetable of Key Processing Steps

- |                                   |                                |
|-----------------------------------|--------------------------------|
| (a) Time taken to prepare:        | 8 months                       |
| (b) Prepared by:                  | MTME/GDDP with Bank assistance |
| (c) Bank Identification Mission:  | November 1991                  |
| (d) Appraisal Mission departed:   | June 28, 1992                  |
| (e) Negotiations:                 | January 13, 1993               |
| (f) Planned date of effectiveness | April 1993                     |
| (g) Relevant PCR and PPAR         | None to date in this sector    |

## POLAND

## STATUS OF BANK GROUP OPERATIONS

A. STATEMENT OF BANK LOANS a/  
(As of December 31, 1992)

Loan No.	Fiscal Year	Borrower	Project	US\$ Million	
				Loan	(Less Cancellations) Undisbursed
One Loan (SAL) Fully Disbursed:					
3247	1991	Republic of Poland	Structural Adjustment Loan	300.0	
Total Fully Disbursed SAL, SECAL and Program Loans				300.0	
<b>Loans Under Disbursement:</b>					
3166	1990	National Bank of Poland	Industry Export Devt.	260.0	320.17
3167	1990	National Bank of Poland	Agroindustry Export Devt.	100.0	43.83
3190	1990	Republic of Poland	Environment Management	18.0	10.55
3193	1990	Republic of Poland	Transport	4.8	3.19
3194	1990	Polish State Railways	Transport	145.0	110.60
3215	1990	Polish Oil and Gas Co.	Energy Resources Devt.	250.0	171.19
3319	1991	Polish Post, Telephone and Telegraph	Telecommunications	120.0	95.70
3338	1991	Republic of Poland	Employment Promotion Services	100.0	94.67
3341	1991 b/	Republic of Poland	Financial Institutions Devt.	200.0	124.86
3342	1991 b/	Republic of Poland	Privatization and Restruct.	280.0	205.31
3343	1991	Republic of Poland	Agricultural Devt.	100.0	99.00
3377	1991 g/	Republic of Poland	Heat Supply Restructuring	75.0	39.82
3378	1991 g/	DHE-Gdansk	Heat Supply Restructuring	40.0	38.32
3379	1991 g/	DHE-Gdynia	Heat Supply Restructuring	25.0	21.61
3380	1991 g/	Voivodship DHE	Heat Supply Restructuring	35.0	35.00
3381	1991 g/	Municipal HE-Krakow	Heat Supply Restructuring	25.0	22.26
3382	1991 g/	Capital Region HE	Heat Supply Restructuring	100.0	95.45
3383	1991 g/	Wielkopolski Bank Kredytowy	Heat Supply Restructuring	20.0	20.00
3466	1992 d/	Republic of Poland	Health	130.0	130.00
3467	1992	Polish Development Bank	Private Enterprise Devt.	80.0	60.00
3499	1992 d/	Republic of Poland	Housing	200.0	200.00
Total				2,607.8	
Of which: Repaid				-	
Total now held by the Bank				2,607.8	
Total Amount Sold				0.0	
Of which Repaid:				0.0	
Total undisbursed					1,861.50

a/ The status of these projects is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

b/ Hybrid loan.

c/ DHE - District Heating Enterprise. Seven loans made for one project; one of the loans is not yet effective.

d/ Not yet effective.

## POLAND

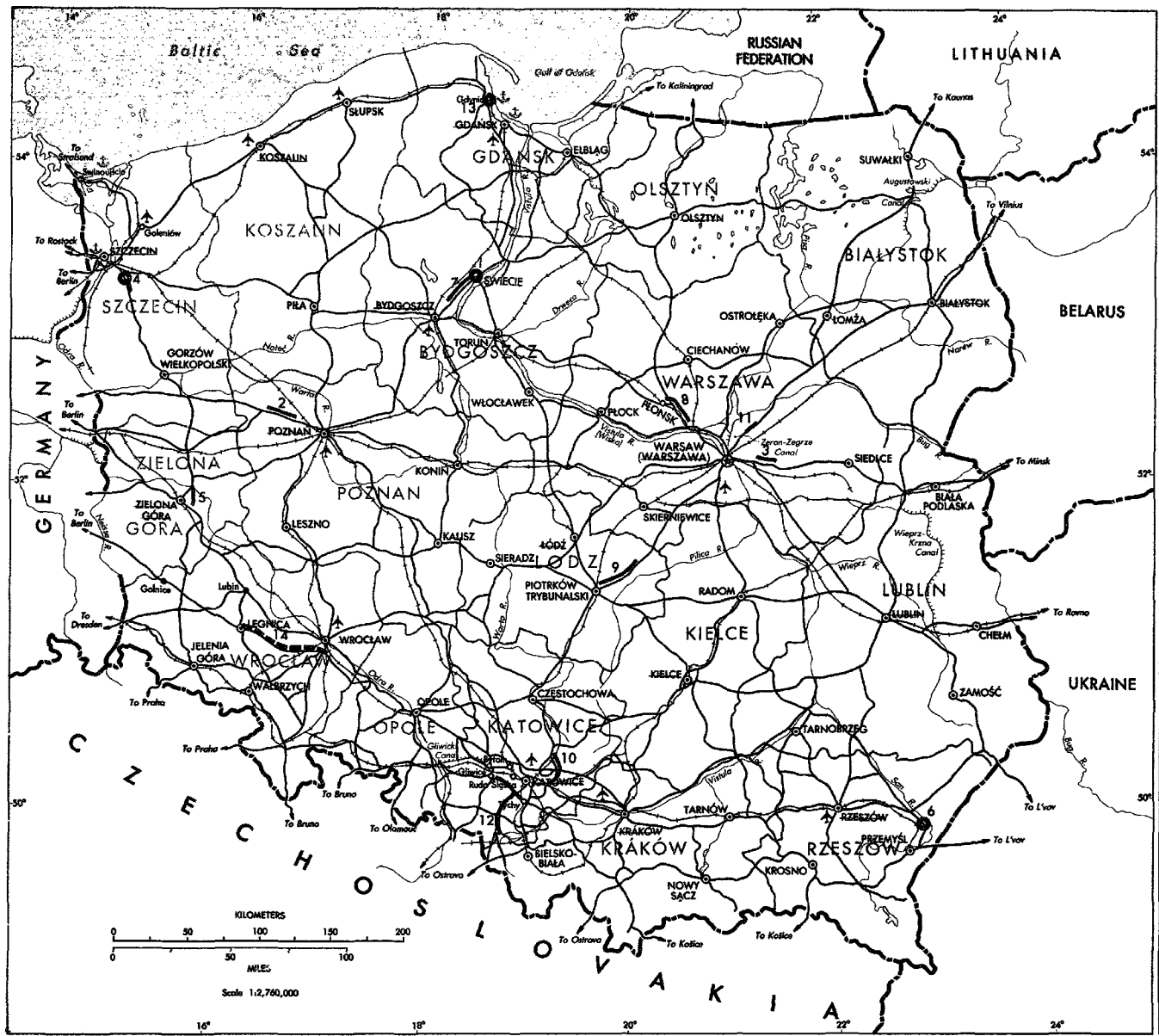
## STATUS OF BANK GROUP OPERATIONS

## B. STATEMENT OF IFC INVESTMENTS

(As of December 31, 1992)

Fiscal Year	Obligor	Type of Business	Gross Commitments		
			-----US\$ Million-----		
			Loan	Equity	Total
1989	Hortex	Agriculture & Livestock	17.20	-	17.20
1990	EDB-Al g/	Sales & Export Finance Leasing	28.84	-	28.84
1990	EDB-Decmet	Sales & Export Finance Leasing	0.12	-	0.12
1990	EDB-Eurocamion	Sales & Export Finance Leasing	0.08	-	0.08
1990	EDB-Grasi	Sales & Export Finance Leasing	0.10	-	0.10
1990	EDB-Ital-Pol	Sales & Export Finance Leasing	0.30	-	0.30
1990	EDB-Machelewski	Sales & Export Finance Leasing	0.38	-	0.38
1990	EDB-Malkiewicz	Sales & Export Finance Leasing	0.08	-	0.08
1990	EDB-Manczak	Sales & Export Finance Leasing	0.14	-	0.14
1990	EDB-MJA	Sales & Export Finance Leasing	0.48	-	0.48
1990	EDB-Piotr Ostrow	Sales & Export Finance Leasing	0.19	-	0.19
1990	EDB-Rotter	Sales & Export Finance Leasing	0.09	-	0.09
1990	EDB-Rybka Iron Work	Sales & Export Finance Leasing	0.39	-	0.39
1990	EDB-Saar Papier	Sales & Export Finance Leasing	0.21	-	0.21
1990	EDB-Sawena	Sales & Export Finance Leasing	0.82	-	0.82
1990	EDB-Tworzosc	Sales & Export Finance Leasing	0.61	-	0.61
1991	Bristol Hotel	Hotel Development	10.68	-	10.68
1991	International Bank of Poland	Commercial Banks	-	3.20	3.20
1992	Chemagev	Real Estate & Business Service	10.58	1.06	11.64
1992	Philips Poland	Electrical Apparatus	15.00	-	15.00
1993	Filkington	Glass & Glass Products	-	22.63	22.63
Total Gross Commitments			84.37	28.89	111.26
Less: Cancellations, Terminations, Exchange Adjustments, Repayments, Write-offs and Sales			12.62	0.00	12.62
Total Commitments Held by IFC			71.75	28.89	98.64
Total Undisbursed			31.27	22.63	53.90
Total Outstanding			40.48	4.26	44.74

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February 1, 1993



### POLAND ROADS PROJECT

PROPOSED CONSTRUCTION PROJECT:

- 12 JOB NUMBERS (see Annex 4)
- CONSTRUCTION OF BYPASSES
- DUALLING AND UPGRADING OF ROADS
- RECONSTRUCTION OF MOTORWAY
- ⊕ LUBLIN: GDDP DISTRICT HEADQUARTERS
- GDDP DISTRICT BOUNDARIES

- MAIN ROADS
- RAILROADS
- ⬆ AIRPORTS
- ⊕ NATIONAL CAPITAL
- ⊙ VOIVODSHIP CAPITALS
- CITIES AND TOWNS
- ⬇ MAJOR PORTS
- RIVERS
- CANALS
- INTERNATIONAL BOUNDARIES

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