

Traceca: Central Asian Railways  
Restructuring Project  
Module B: Uzbekistan Railway  
Restructuring Study  
**Inception Report**  
September 1997

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TRACECA  
Central Asian Railways Restructuring - Uzbekistan

<b>Project Title</b> :	TRACECA : CENTRAL ASIAN RAILWAY RESTRUCTURING	
<b>Project Number</b> :	TNREG 9602	
<b>Country</b> :	Uzbekistan	
	<b>Local operator</b>	<b>EU Consultant</b>
<b>Name</b> :	C I E CONSULT/SYSTRA	C I E CONSULT/SYSTRA
<b>Address</b> :	Railway Headquarters Tashkent, Turkmenistan	Grattan Bridge House, 3 Upper Ormond Quay Dublin 7, Ireland.
<b>Tel. number</b> :	+7 3712 367950	+ 353- 1 703 4701
<b>Fax number</b> :	+7 3712 367950	+ 353-1-703 4725
<b>Telex number</b> :		
<b>Contact person</b> :	V Herriau	Michael Barry
<b>Signatures</b> :		

Date of report : October 1997.

Reporting period : September/October 1997

Author of report :

EU M & E team	_____	_____	_____
	(name)	(signature)	(date)
EU Delegation	_____	_____	_____
	(name)	(signature)	(date)
TACIS Bureau	_____	_____	_____
(task manager)	(name)	(signature)	(date)

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# 1 Project Synopsis

Project Title	:	Traceca - Central Asian Railways Restructuring – Module B
Project Number	:	TNREG 9602
Country	:	Uzbekistan

- Project objectives : Overall objective is to support the major changes to be undertaken by UTY, that will make it a viable commercial entity, contributing to the development of the country, and able to borrow from international banks
- Sort term objectives include a direct impact on the time needed to decide on institutional changes by the government of Uzbekistan; they otherwise identify with the planned output
- Planned output : Investment plan covering the most visible priorities for UTY, that can be submitted to EBRD for possible financing (infrastructure, electrification, computer and telecommunication systems
- Recommendations on institutional changes and description on accompanying measures that would help making them feasible; integration in an action plan
- Business plan outlining the viability of UTY, and the impact of recommended changes
- (supporting analyses)
- Project activities : Critical analysis of existing reports on UTY  
Team work with the restructuring team of UTY on institutional issues  
Analysis of the need for managerial practices adapted to the transition period  
Preparation of investment plan and business plan
- Target groups : Restructuring Committee (see list)  
International Relations department (electrification and infrastructure)  
Restructuring team (restructuring process)
- Project starting date : September 1<sup>st</sup>, 1997
- Project duration : 5 months

## **2 Analysis of project**

### **2.1 UTY restructuring**

The restructuring of UTY is proceeding according to the order 06-5-72, dated 11/8/97 and signed by Mr Rakhimov, deputy prime minister in charge of transport and communications.

It calls for progressive autonomy of the 200+ entities reporting to the railways, in a framework which has still to be defined. Some of them could be privatised.

There is a wide perception that the process should occur at minimal social cost to current employees of UTY, and to members of the communities around UTY settlements.

### **2.2 Needs of the beneficiaries**

The statement of endorsement for this project reads

“Infrastructure maintenance – electrification studies – Central Asia”

and is in full accordance with the perceived needs of the beneficiary.

Decree N° 304 dated 23/6/93 requires UTY to resolutely pursue electrification of their network, and sets deadlines for electrification of specific sections. Though deadlines may not be exactly met, there is a general consensus at the cabinet of ministers and UTY that the programme itself should proceed as ordered.

The statement of endorsement was signed in this perspective by the Chairman of UTY. In addition, no ToRs were appended to the statement of endorsement; UTY therefore perceived that they had not endorsed yet the ToR for this project. Furthermore, the provision in the statement of endorsement that facilities and staff be provided free of charge has been barred.

Though restructuring corresponds to an actual need, there is a general perception at UTY that infrastructure and electrification should enjoy a higher priority level in making use of foreign technical assistance.

Acceptance by the beneficiary of the revised framework corresponds to a new agreement, which was signed at the end of September, after several weeks of negotiations, and makes due provision for the perceived priorities of UTY.

### **2.3 Situation of UTY**

Though traffic has declined by about 80 % since perestroika, and no strong measures were taken to reduce the headcount, UTY has managed to remain profitable, largely through a ban on maintenance expenditures and a strong decrease of inflation adjusted salary levels.

This has led to a potentially precarious situation, where important sums have to be invested in the overhaul of the existing infrastructure, if a serious worsening of its condition in the coming years is to be avoided.

Passenger business at UTY is a loss making operation, and typically offers a lower quality of service than competing bus lines. It is also believed that fare bashing is a serious issue, though figures would not be available. It is the perception of the Consultant that passenger operations should be spun off as quickly as possible, to the extent that solutions can be designed, which would provide for continuity of service to the public.

International freight is a minor part of total freight traffic, and is being hampered by poor international co-operation between former USSR countries. This issues is abundantly documented in various Traceca reports. Though it is a significant issue for the country, as it inhibits international trade and the related potential for development, it has only a moderate impact in the short term on the commercial success and financial viability of UTY. This moderate impact is however mitigated by the fact that international traffic brings hard currency; as long as the Uzbek Sum is not convertible, this will give international traffic a disproportionate importance.

Domestic freight is also being competed away by road transportation, to an extent that cannot be measured yet; in addition, the major revenue earner for UTY, and the only profit making traffic, namely oil transportation, is potentially

threatened by the possible construction of pipelines between the major production regions (Ferghana valley and region of Bukhara), the existing and planned refineries (same regions, volumes not balanced), and the major consumption centres. The issue is being analysed.

## **2.4 Project start up**

### **2.4.1 Initial contacts with counterpart and subject matter**

The project director, Mr J. Higgins, and the team leader, Mr V. Herriau, accompanied by the MIS expert, Mr O. Dereudre, arrived in Tashkent in the first days of September, in order to meet with the counterpart and get the project started.

They arrived in time to attend the donors conference, hosting representatives of EBRD, ADB, and The World Bank, and to meet representatives of ADB; ADB just commissioned a study of the rehabilitation needs of UTY, which significantly overlaps with our own terms of reference, delivered interesting results, and affected the expectations of UTY.

At UTY they met the chairman, Mr N. Ermetov, the head of the restructuring team, Mr S. Kadyrov, the head of the international relations department, Mr V. Davidovitch, and Mr M. Sims, the Traceca co-ordinator for Central Asia.

UTY reminded the Consultant of the importance of infrastructure related issues, and various bilateral documents were exchanged between EBRD, Traceca, UTY, and the Consultant, dealing with contents of the work.

After several weeks of negotiations an agreement was signed between the Consultant and UTY, which calls for increased focus on infrastructure and electrification related issues, while not entailing a modification of the terms of reference.

During the negotiations, contacts between the Consultant and UTY staff, and access to information was strictly restricted to what was useful to studying the electrification projects of UTY. This seriously impaired the effectiveness of the first consultants who started working on the project.

### **2.4.2 Staff**

All staff was quickly recruited within the first two weeks, and provision was made for additional staff, should the need arise.

This included experts from the Tashkent Railways Institute and the retired financial director of UTY. These experts facilitate contacts, and speed up fact finding and understanding of issues.

### **2.4.3 Logistics**

Pending signature of the agreement with UTY, a one room office was established within UTY, and telephone lines were operating there by the last week of September.

At the time of preparation of this report, the computers shipped from Ireland for the use of the project are still within custody of the Customs department, pending resolution of administrative disagreements between Tacis CU, Tashkent Road Institute (hosting Traceca co-ordinating unit), UTY, Customs Department, and Airport bonded warehouse; a member of the staff has been affected full time to the resolution of this matter for two weeks as of mid September.

Fortunately, part of the equipment used by the team working for ADB, now the property of UTY, was left at the disposal of the Consultant till the equipment in transit would be available. The only computer represents however a severe bottleneck.

### **2.4.4 Implication of counterpart**

Accommodation will be provided for free.

Managers of UTY will fully co-operate with the Consultant; their work load doing so will be kept to a minimum thanks to the local experts hired and paid by the Consultant.

## **2.5 Work progress**

### **2.5.1 Reports available (review and consequences)**

Considerable work has already been done at UTY on related matters by Traceca and by ADB :

- Traceca reports on infrastructure, rolling stock, multi-modal transport and tarification
- ADB rehabilitation study

A critical analysis of these reports is still being made; these reports will be used to the fullest possible extent, whenever new information would not suggest substantially different conclusions.

Some related issues are still unsettled at the time of publishing this report.

Generally speaking, there appears to be overall inconsistencies between the investment needs announced, the traffic to be anticipated, and the presumed ability of UTY to sustain the financial load of the announced investment needs. Higher prices alone would not necessarily make those investments affordable, as they may well kill off part of the demand, of trigger a shift to road transport, as has already started.

The announced investment need in the amount of 2B\$ will be subject to stricter prioritisation. For higher priority investments, individual amounts will be re-estimated whenever applicable.

### **2.5.2 Experts**

Following experts were present in Tashkent :

John Fisher (financial matters)

Don O'Brien (human resources)

Eanna Johnson (institutional)

Olivier Dereudre (MIS)

Pierre Chartier (operations)

Alain Robinet (infrastructure)

Maxime Rué (infrastructure)

They studied the reports available, and attempted to establish contact with the relevant managers of UTY.

### **2.5.3 Output**

The practical result of the inception phase is generally the increased familiarity of the experts with the subject matter within the context of UTY.

As a consequence of the unsettled expectations regarding the project, access to the managers of UTY was difficult, and access to information not directly related to electrification issues was denied; the loss in manpower resources is estimated at 6 man weeks.

Visible progress was achieved in the following directions :

- institutional : contact visibly established, and contribution to the work of the restructuring team effectively started
- electrification : all contacts established, objectives agreed with the beneficiary

- human resources : contact with training institutions established, debate started on HR side of the restructuring process, survey started potentially leading to the definition of a system at UTY supporting the identification of training needs and the appointment of managers to existing and new positions
- MIS (see below)

#### 2.5.4 MIS and UIC

After the visit of Olivier Dereudre (MIS expert, co-ordinator of MIS issues on the total project), an agreement in principle was reached with the beneficiary, pending resolution of the agreement issue, which called for unlimited support to focused investment proposals in information systems.

The priorities jointly identified covered MIS, to the extent that they would support the restructuring process (presumably accounting, budgeting, maintenance management, human resources), and commercial systems (successor to the CIS wide OSSOUP freight tracking system, and related functions). It is widely understood that the implementation of information systems would only be effective if they would come with accompanying organisational and institutional measures.

During the inception phase, the first UIC study team, contributing to module E of this project, visited Tashkent. Extensive talks were held between UIC, the Module B team, and UTY. UIC and UTY signed an agreement calling for extensive further co-operation on issues related to information and telecommunication systems.

This module and UIC reached a tentative agreement calling for the co-ordination of their work, leading to precise recommendations to be included in this module's draft final report in December, which would enable UTY and EBRD to start negotiations, and would reinforce the relevance of UIC' work till the scheduled end of their mission around June 1998.

There is at this time a strong agreement on issues related to commercial systems and the implementation of a new national and international trunk network using railways right of way alongside the tracks.

#### 2.5.5 Regional issues

Three issues, as seen from this module, deserve to be managed or co-ordinated at regional level, in decreasing order of importance :

- the creation of a regional market for railways transport related services
- the further development of commercial information systems for freight, and the development of international traffic using direct trains
- a regional co-operation on bartering, requiring each RW company to set up a barter department, which would co-operate with one another, possibly creating a clearinghouse for this purpose

The regional market for RW services potentially bears a very strong impact on institutional arrangements. Each country / company wants to be self sufficient in all services needed, even if only infrequently needed. Even to the extent that the right economies of scale can be reached in a given country, this does not allow the service to be provided on a competitive basis. The creation of an open, regional market could lead to self regulation, possibly only partial, using market mechanisms, and could lead to a better utilisation of assets.

For instance, if wagons would be owned by a handful of specially created companies, to be leased to operating companies in the whole region for durations to be negotiated flexibly, and at market conditions, the conditions would be created for the most effective use of existing rolling stock. The same may apply for locomotives. The same rationale may be used for other services.

This point is similar to the point about ancillary services in Kazakhstan raised by EBRD; once separated from the core railways, they could benefit from separate loans from EBRD, and even more so if they have access to an enlarged regional market.



## 2.6 PROJECT PROGRESS REPORT

Project title : TRACECA - Central Asian Railway Restructuring Module B - Uzbekistan		Project number : TNREG 9602 Contract number : ???		Country : Uzbekistan		Page :						
Planning period : September 1997 (W36 TO W39)		Prepared on : 6th October 1997		EC Consultant : CIE Consult, Grattan Bridge House, 3 Upper Ormond Quay, Dublin 7, Ireland								
Project objectives : to support the major changes to be undertaken by UTY, that will make it a viable commercial entity, contributing to the development of the country, and able to borrow from international banks												
N°	MAIN ACTIVITIES	TIME FRAME						INPUTS	EQUIPMENT & MATERIAL		OTHER	
		1996							COUNTERPART	FLIGHTS	PER DIEM	
		36	37	38	39	EC						
1	Project management					33					33	
2	Institutional issues					14					14	
3	Legal issues											
4	Economic issues											
5	Financial review					8					8	
6	Costing											
7	Operations					15					15	
8	Rolling stock											
9	Infrastructure					14					14	
10	Equipment					14					14	
11	MIS					3					3	
12	Human resources					14					14	
13	Environment											
						115					115	

## 2.5.6 Steering Committee

No formal Steering Committee has been established at this stage; the issue could not possibly be raised till an agreement was signed with UTY, defining the orientations of the project.

It must be stressed however that the above mentioned target groups function effectively as an informal Steering Committee, though it would not hold statutory meetings.

The issue will be raised. UTY may prefer another communication mode. Relationships with the individual members of UTY management would for instance allow individual, short discussions following delivery of written documents. Issues of general interests could be raised using the meetings organised by Mr Rakhimov to manage the restructuring process.

## 3 Project planning

This project has a short duration, is focused, and was described at length in the previous pages.

The pages covering project planning will therefore be kept to a minimum.

### 3.1 Project approach

Much has been written about UTY and general directions to be followed. This information is known to management and to the Cabinet of Ministers, and already been acted upon.

For Module B of this project to deliver visible value added, it must focus on two main directions :

- the investments that would be most effective for the development of UTY, presented in a precise and convincing way, for UTY and EBRD to quickly agree on relevance and implementation schedule
- the restructuring process, and all accompanying measures that would make it work, including management issues at UTY that will affect the performance and controllability of individual units

Beyond analytical value, the work delivered will be considered useful if it visibly contributes to Uzbekistan making quicker decisions on the most pressing restructuring issues.

In this framework, the submission of a business plan is an important part of the work being done. It should be useful in highlighting the impact and the financial feasibility of the investments proposed. It should also be useful in highlighting the importance of specific management processes at and related to UTY (budgeting, contracting, state regulation).

### 3.2 Work plan

see accompanying chart on engagement of experts

It includes extensive data collection and meeting with UTY on all issues leading to deliverables (see below).

On most matters, and especially on institutional matters, priority will be given to obtaining feedback from UTY; as a result, to the fullest possible extent, the deliverables will be delivered on an on going basis, to be later collated to constitute the draft final report.

### 3.3 Deliverables

#### 3.3.1 Institutional framework

- target for rail transport system, including split of responsibilities, , organisational structure
- role of the state and related instruments (Public Service Contracts, ...); organisation of the regulatory function
- comments on corporatisation and privatisation
- legal issues linked to restructuring and the functioning of the rail transport system

### 3.3.2 Restructuring process and accompanying organisational process

- project implementation unit, restructuring implementation plan - national agenda for restructuring the railways sector
- change management; organisational and MIS requirements
- comments on new accounting and budgeting rules

### 3.3.3 Investment plan and related scenarios

- electrification (including supporting analyses – traction services)
- oil pipelines
- other infrastructure
- information systems
- comments on proposed investment list (ADB 2B\$)

### 3.3.4 Forecasting, recommended changes and business planning

- traffic forecasting, by track segment
- manpower planning, including scenarios for reduction
- recommended changes to operation of trains; impact
- recommended changes to maintenance practices; impact
- base business plan and supporting quantitative evaluations
- sensitivity analysis (basic assumptions, investments evaluated)

### 3.3.5 Environment

as per ToR

## 3.4 Risks

No specific risk to the project has been identified.

The revised, increased scope, and the loss of manpower during the inception phase are facts rather than a risk (see below).

## 3.5 Request for additional manpower

A first request for four weeks additional manpower, in order to deal with an unanticipated, stronger focus on electrification, has already been issued.

In order to make up for the loss of manpower during the inception phase, a request for another six weeks is being submitted, to be split between non infrastructure related areas of expertise :

- economics or finance : 3 weeks
- operations : 1 week
- institutional and project management : 2 weeks

All requests can be funded from the contingency budget of the project.

3.6. OVERALL PLAN OF OPERATIONS

N°		TIME FRAME												INPUTS		OTHER		
		1996			1997			1998			PERSONNEL (man days)		EQUIPMENT & MATERIAL		FLIGHTS PER DIEM			
		36	38	40	42	44	46	48	50	52	2	4	6	EC	COUNTERP.			
1	Project management													123		Office Equipment (2 computers, 2 printers, 1 copier)	98	
2	Institutional issues													38			28	
3	Legal issues													19			14	
4	Economic issues													26			21	
5	Financial review													26			21	
6	Costing													19			14	
7	Operations													38			28	
8	Rolling stock													19			14	
9	Infrastructure													19			14	
10	Equipment													19			14	
11	MIS													38			28	
12	Human resources													38			28	
13	Environment													19			14	
													441					336
													TOTAL					

Project title : TRACECA - Central Asian Railway Restructuring  
 Module B - Uzbekistan  
 Project number : TNREG 9602  
 Contract number : ???  
 Prepared on : 8th October 1997  
 Country : Uzbekistan  
 Page :  
 Planning period : from September 1997 (W36) to February 1998 (end)  
 EC Consultant : CIE Consult, Gratian Bridge House, 3 Upper Ormond Quay, Dublin 7, Ireland  
 Project objectives : to support the major changes to be undertaken by UTY, that will make it a viable commercial entity, contributing to the development of the country, and able to borrow from international banks

See "Work Programme" for detailed schedule

### 3.8. PLAN OF OPERATIONS FOR THE NEXT PERIOD (Work programme)

Project title : TRACECA - Central Asian Railway Restructuring Module B - Uzbekistan		Project number : TNREG 9602 Contract number : ???		Country : Uzbekistan		Page :						
Planning period : from October 1997 (W40) to February 1998 (end)		Prepared on : 6th October 1997		EC Consultant : CIE Consult, Grattan Bridge House, 3 Upper Ormond Quay, Dublin 7, Ireland								
Project objectives : to support the major changes to be undertaken by UTJ, that will make it a viable commercial entity, contributing to the development of the country, and able to borrow from international banks												
N°	MAIN ACTIVITIES	TIME FRAME						EQUIPMENT & MATERIAL	INPUTS		OTHER	
		1997			1998				COUNTERPART	EC		FLIGHTS
		9	10	11	12	1	2					
1	Project management								90			65
2	Institutional issues								24			14
3	Legal issues								19			14
4	Economic issues								26			21
5	Financial review								18			13
6	Costing								19			14
7	Operations								23			13
8	Rolling stock								19			14
9	Infrastructure								5			0
10	Equipment								5			0
11	MIS								35			25
12	Human resources								24			14
13	Environment								19			14
									326			221

See "Work Programme" for detailed schedule

## **4 Annexes**

- comments on institutional issues (5 documents)
- Agreement between UTY and the Consultant
- decree on electrification (Russian version)
- instructions on restructuring of UTY

**Uzbekiston Temir Yullary**  
**Draft Proposals on Institutional Status and**  
**Relations with Government**

Uzbekiston Temir Yullari (UTY) will have the status of a Stock Company, with all the shares owned by the State.

UTY will have the authority to establish subsidiary stock companies, in which the shares could be owned entirely by UTY, or in which some of the shares could be owned by private or other state interests.

Responsibility for UTY will be vested in the Government, acting on behalf of the State.

Management of UTY will be delegated by Government to the Board of UTY.

The Government will appoint the Chairman and Board members of UTY.

The Board will number approximately ten persons as follows:

- A Chairman who may be executive or non-executive.
- Not more than three executive director, who will all be members of the top management team of UTY.
- Two representatives: one of them from the Ministry of Finance.
- Non-executive directors who would reflect the interests of business/financial institutions, major industry users of UTY services, the transport sector and the general public.

The Board of UTY will:

- Set objectives and policy of UTY in harmony with Government Policy, strategic plans and legal requirements.
- Establish a management structure and appoint a top management team.
- Approve annual budgets, targets.
- Monitor progress of UTY against objectives, budgets and plans.
- Safeguard the assets of UTY.
- Report to the Government on the discharge of its responsibilities.

The Railway infrastructure will remain the property of the State.

The general purposes of UTY will be defined as:

- The operation of a Railway on the Uzbekistan State railway system.
- Provision of passenger and freight services in a commercial manner.

- Regulation of the use of the railway infrastructure by other enterprises permitted to operate thereon.
- Undertaking other related and ancillary activities as determined by the Government or Board.

In relation to privatization it is not envisaged that UTY will be privatized in the foreseeable future, however,

- some existing UTY enterprises which are not core railway activities, may be fully privatized in the future;
- UTY may invite some private share-holding in selected existing enterprises to be established in the future;
- There may be provision in the future for private service operators to have access to the railway infrastructure.

There will be a Contract Plan agreed between the Government and UTY, which will include the following provisions:

- Period of Contract (five years would be reasonable);
- Use of state-owned property (land, buildings, equipment, etc.) by UTY, especially land usage and development;
- Definition of what constitutes the railway infrastructure;
- General policy of Government for the period of the Contract;
- General policy of UTY with focus on provision of passenger and freight services, renewal of infrastructure, financial management and restructuring.

The Contract Plan will specify on the part of UTY:

- Investment program with budgeted costs, and sources of investment.
- Financial targets in the various sectors of activity.
- Services to be provided which are not fully commercial but which are required by the State for reasons of social support or national strategy, and the basis for the remuneration for UTY for such services.

The Contract Plan will specify on the part of the Government:

- Funding to be provided for the investment program.
- The services required from UTY for reasons of social support or national strategy.
- The formulae which will apply for remuneration of UTY for such services.



## **Draft Proposals on Organization Structure**

The State will always remain the owner of the railway infrastructure, and will remain the owner of the Railway operating company Uzbekiston Temir Yullari (UTY) for the foreseeable future.

The proposed organization structure will support the following objectives:

- Clear accountability to the Government of Uzbekistan for the custody and operation of valuable and strategically vital national asset.
- Provision of customer-focused transport services in a commercial manner in competition with other modes of transport.
- Logical grouping of activities and functions to achieve efficiency and effectiveness.
- Clear accountability within UTY.
- Good communications internal and external.
- Supportive of achievement of financial objectives.
- Restructuring of non-core activities.

The Board is appointed by and is responsible to the Government for UTY.

The organization structure insures that the Board can exercise its responsibility for all UTY operations and assets.

The activities of UTY are grouped into six sections. Each section will have a head (position titles to be determined). The six Heads and the Chairman will function as the Top Management Team of UTY.

The six sections are described below:

There will be two sections for Passenger and Freight Services. The section will at least be Separate Business Units or Profit Centers. They could at some time in future become separate legal entities with the shares owned by UTY.

These sections will be customer-focused and commercial, with a high degree of autonomy. They will contract for the traction services and major maintenance on wagons/coaches from the Traction Section, and for use of the Railway infrastructure from the Infrastructure Section.

The Infrastructure Section will be responsible for maintaining and upgrading the railway infrastructure, and operating it through the Traffic Control Center. The infrastructure includes track, bridges, power supply, signaling and communications. Major construction work may be contracted to Construction Enterprises within UTY or to third parties on a competitive tendering basis.

The Traction Section will be responsible for operation of locomotives, including fuel supply, and will contract with the Passenger and Freight Sections for the provision of an efficient and competitive traction service. The Section will carry out all maintenance on locomotives and major maintenance on wagons and coaches. The Section will have the freedom to provide services to third parties on a commercial basis.

Certain services are best provided at a corporate level. These services will be the responsibility of a Head of Corporate Services. Such services will include corporate accounts/treasury, legal, corporate planning, economics statistics, computer center, central purchasing, environmental protection, central human resources, international accounts and agreements.

There are many services and enterprises which are provided by UTY, which are not core railway business. Some of these enterprises (e. g. "Jeldormramor") can be diverted in the short term. Others (e. g. Medical and education services) will ultimately be transferred to local or a central Government, but the process could take a long time. Other services (e. g. construction enterprises) could provide services on a commercial basis to third parties and UTY may decide to retain full or part ownership in the longer term.

The complex issues involved should not distract from the core railway business; therefore, there will be separate sections for Ancillary Services and Restructuring.

The Chairman will require a small staff for certain key activities that are best carried out at Board Level. These include Board Secretariat, Public Relations and Safety Inspectorate.

## **Working paper**

# **Restructuring the Uzbek Railways – issues and options**

The Uzbek government is currently preparing a decree which will outline the rules according to which Uzbekistan Temir Yullari (UTY) and rail transport in general will function in the future in Uzbekistan.

Our project “Central Asian Railways Re-structuring – Uzbekistan” is financed by the European Commission’s Tacis programme. its purpose is to support the restructuring process at UTY and facilitate the granting of loans by EBRD that will contribute to the reconstruction of the railways.

Institutional issues are a significant part thereof.

The purpose of this document is to propose a brief analysis of the situation of the Uzbek railways and to highlight the choices that may be made and the rationale that may be advocated to support them.

It is submitted in order to trigger further questions from the leadership of UTY and the Republic of Uzbekistan, that would help us identify directions where our further work would be most useful. It ideally awaits formal comments.

## **1. Background and key issues**

After Independence, the Central Asian Railways were stripped from most non Uzbek operations, and became the Uzbek railways. They thus inherited a large technical basis, probably over-dimensioned for the reduced responsibilities.

Declining traffics eroded the revenue base, as did controlled prices which did not grow in pace with inflation. As a result little money was put into maintaining or repairing the infrastructure, leaving a significant related backlog.

The main issues facing the government now could be summarised as follows, probably in that order :

- how to ensure that the needed works on the railways would be carried out , as needed, when it is needed, for a reasonable amount, and with the expected result, in effect making sure that the infrastructure remains in proper conditions using as little financial resources as possible ?
- similarly, how to ensure that investment in rolling stock and maintenance facilities would be kept to a minimum, and typically without support from the State budget ?
- how to ensure that trains would run effectively and safely, in accordance with expectations of passengers and shippers ?
- how to ensure that prices charged allow the providers of services a decent return on the capital invested and a decent salary for their employees, while making sure that they keep being motivated to reduce their costs and increase their efficiency

## **2. Basic principles**

### ***2.1. Roles of the state and the market***

Breaking up the railways in its constituent parts may be effective if each unit has a clear focus, and if the relationships between the units are simple to manage.

For the many services that have to be performed, an important question has to addressed first : should the definition of services, their provision, and the level of prices be left to the State, or to market forces.

The current situation is that of the State owner manager.

An intermediate situation is the State defining the services, and controlling the performance of a monopolistic operator. It allows the operator to benefit from an increased efficiency, and sometimes creates difficult control problems.

A third situation occurs when this controlled operator has to compete with other, licensed operators, typically private companies.

A fourth situation occurs when several companies are competing effectively for the provision of services; State supervision is then less needed.

## **2.2. Residual role of the state**

It may be argued that some level of supervision by the State will always exist, where the State exercises following roles.

- guardian and possibly owner of the main railways facilities, considered as national strategic asset, to be kept in proper condition
- owner of railways assets, and of shares of companies owning railways assets, which must earn a decent return on their value
- guardian of the safety of the general public
- guardian of the interest of the public, which needs transportation services to be available, at a fair price

Those roles are traditionally allocated to one or several government departments, which may jointly be called the "Regulator". The Regulator will typically define, in the same order :

- the conditions in which the infrastructure should be built or maintained, including the financial conditions ... and leave it up to a company to carry out the instructions
- the prices and budgets, or only control them
- the safety standards, and control their proper enforcement
- the so-called PSO for Public Service Obligation, to be rendered by specific operators, and control the prices charged

## **2.3. Classification of services**

Merchant services within the scope of the railways can be classified in four classes, and further sub classes :

- track and track facilities : ownership; building and maintenance services; operation and dispatching
- locomotives : ownership; maintenance services; operation
- wagons and carriages : ownership; maintenance services; operation
- transportation services – organising trains and selling the service, possibly bundled with other services, to customers

## **2.4. Relevance of separating ownership, maintenance and use**

Potentially each sub class could be separated if it would provide for the right mix of economies of scale, focus, and incentive to make the best possible use of assets.

Typically, maintenance services are best performed in modern facilities, well equipped. this is only economically effective if there is enough work load for the facility. Depending on the circumstances, it may militate for separate, focused maintenance facilities.

Typically also, an operator who has excess capacity of some resources may be unwilling to dispose of it if he can derive comfort from it. In that case, separating use and ownership may be advisable.

For instance, it may be advisable for rolling stock to separate ownership from use if the current stock is excessive : the user, having to pay rent or other usage fee for what he uses, will only use what he really needs; conversely, the owner will try and find other users if he has idle stock to do something with.

## **2.5. Restructuring Agency**

When the State, acting as the owner, but also as the Guardian of the interests of the public, decides to restructure the railways company or the railways sector in a socially acceptable way, it would create a so-called restructuring agency.

This agency will typically :

- take control of the assets and services non directly related to the performance of Railways related services, and try to make the best out of them (sell them, lease them, transfer them over time to other, more specialised state entities)
- organise and finance the retraining of redundant employees, pay interim salaries and redundancy settlements

As a result, the remaining railways companies can focus on customers and internal efficiency, and on the activities they have skills for and a clear mandate to improve their performance.

The cash flows generated by more effective operations can be use to pay for investment, to remunerate the owner, and to finance the social cost of the restructuring (i.e. be transferred to the Restructuring Agency).

## **3. Uzbekistan**

Uzbekistan is in the process of making important choices for the future of its railways sector.

These choices will pertain to the organisation of the Railways Company, and to the relationships with the State and other transportation companies.

The choice has already been made to separate infrastructure and operation.

Residual questions remain partially open, relating to :

- the role of the State, and the role of railways headquarters (or holding company, depending on the status of operating units as divisions or subsidiaries)
- the handling of the restructuring process, possibly using a restructuring agency
- the bundling of track ownership, track maintenance and building, and dispatching of trains, possibly leaving the track as a property of the State, maintenance and dispatching separate or bundled
- the bundling of ownership, maintenance and use of the rolling stock; the possible creation of financial companies which would lease their assets at a regulated price to the operators, and at free prices to outsiders
- the licence of operating companies to provide transportation services for freight and passengers; the granting of licenses to competitors of the existing UTY divisions

Another, related issue, pertains to the relevance of a regional market for the above services.

A regional market, two or three times the size of the Uzbek market, would have better economies of scale, and more easily allow competition; if the interests of Uzbekistan would be carefully preserved during appropriate negotiations, all participants, including Uzbekistan may be better off.

## **4. Our project**

Depending on priorities of the restructuring team in charge of dealing with these issues, we may, separately or together, deliver proposals, working papers or focused information on any of the above points.

We can also deal more in depth with the possible ways of managing the restructuring process after the choices have been made by Uzbekistan

**Uzbekiston Temir Yullari (UTY)**  
**Discussion Paper on Organizational Structure**

Substantial progress has been made on changing the organizational structure of UTY to make the Railway customer-focused in a commercial environment, taking account of best international practice.

We submit the discussion paper on the recent organization proposals to help UTY and the Government in the development of final proposals. The notes below refer to the attached organization chart.

1. The Government should exercise a Regulator's function in relation to:
  - Public service obligations;
  - Pricing of passenger and freight services;
  - Licensing;
  - Public safety(See also our Draft Proposals on Institutional Status and Relations with Government)

2. Responsibility for operating of UTY should be delegated by the Government to a Board of Directors, who will be appointed by the Government. The Board should have responsibilities of the Cabinet of Ministers, representatives of financial institutions, major customers, transport industry and the general public along with some UTY top management.

The Chairman could be executive or non-executive, and should have a small staff responsible for Board Secretariat and some other corporate functions, e. g. public relations, Safety Inspectorate, and legal affairs.

3. There are a range of corporate level services which could best be organized by being grouped together under the responsibility of a senior manager.
4. There are important social services provided by UTY (health and education) to employees. In the long term, these services should be provided by public authorities but the transition will take time, requiring consideration of the value of the employees, and the ability of the public authorities to match the standards of UTY.

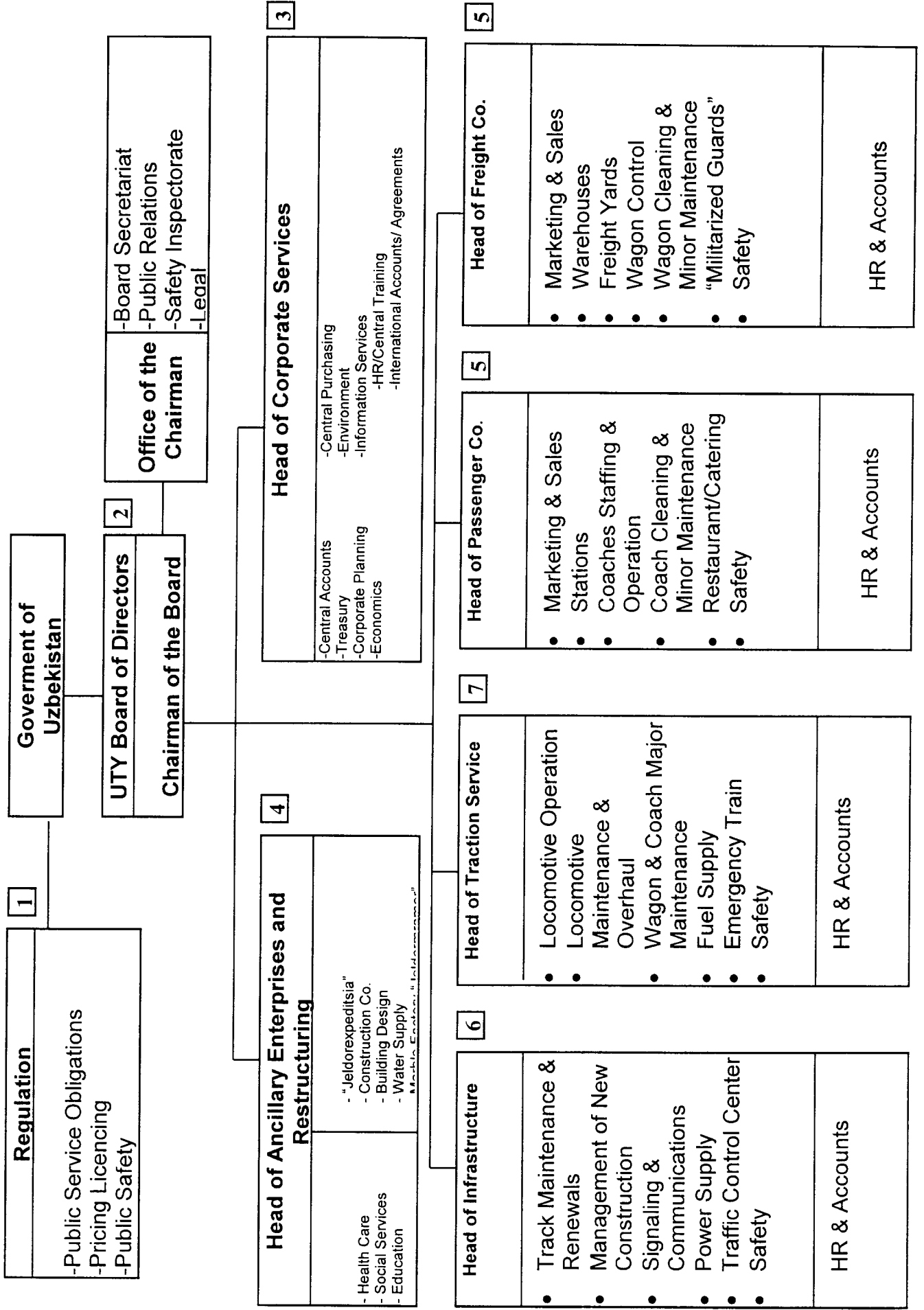
There are other services and enterprises which are not core railway business. Some services could be privatized in the short term (e. g. the Marble Works). There is a strong case for separating the freight-forwarding agency "Jeldorexpeditcia" from the Freight Division to avoid conflict of interests.

It would be helpful to separate the various services from main organization structure under a senior management to allow UTY management to focus on the core railway business.

5. We fully endorse the proposal to separate the Passenger and Freight business into two divisions. However, the freight forwarding agency “Jeldorexpeditia” could operate more effectively separated from the Freight Division, and placed with Ancillary Services.
6. We fully endorse the proposal to create an infrastructure division with responsibility for track, power supply, and signaling/communications. There are a number of possible options for the organization location of the Traffic Control Center; Some railway administrations allocate Traffic Control to the Infrastructure Division, on the grounds that the unit with responsibility for the railway infrastructure should also manage access to and movement on the railway system.
7. The UTY proposals show a division with responsibility for locomotive operation and fuel supply, and Traffic Control. It is certainly possible to locate Traffic Control in this division, but the option for allocation with infrastructure should also be considered.

Location of the enterprise for major maintenance of locomotives, carriages and wagons in this division should also be strongly considered.

DISCUSSION PAPER ON ORGANIZATIONAL STRUCTURE FOR THE UZBEKISTAN TEMIR YULLARY







TRACECA

Central Asian Railways Restructuring - Uzbekistan

### Agreement

between the Uzbekistan Railways (UTY) and  
the consortium CIE Consult and Systra Sofretu Sofrerail (the "Consortium")  
in relation with the project "Central Asian Railways Restructuring – Uzbekistan" (the "Project")

The European Commission's Tacis programme has awarded the consortium the project with the primary goal of providing support to the restructuring process of UTY, which is being carried out by UTY, under guidance from the Cabinet of Ministers.

After the contract was awarded, UTY embarked quickly and resolutely into the process of reorganising their structure. A comprehensive project group was created, which met regularly, and prepared decision making on the issues at hand. There was therefore a perception that the project should be focusing less on restructuring issues than mentioned in the terms of reference.

Conversely, in order to foster the fulfilment of cabinet of ministers decree N° 304 dated 23/6/93 requiring UTY to resolutely pursue electrification of their network, UTY asked the Consortium to put added emphasis on electrification issues.

This concern was relayed to EBRD and the Traceca Co-ordinating Unit, and put into agreements with UTY. Both recommended the Consortium to put added emphasis on electrification issues and on the opportunity for investment in telecommunications and information systems, while refraining from engaging into activities that would fall outside the scope of their terms of reference.

Both sides – UTY and the Consortium – are willing to meet their contractual obligations, and to co-operate fully with the other side's concerns.

As a result,

The consortium

undertakes to put the greatest emphasis possible on electrification and other investment related issues, such as information and telecommunication systems, while still meeting the terms of reference of the Project.

The study will comprise of the following :

Particular attention to be given to the optimisation of traction services in the Mekhnat Jizzak Marakand network segments.

The study will look at the economic cost of investment and operation for the following options : electric traction as proposed by UTY, in comparison to existing and improved diesel services.

To allow us to carry out this work, we have requested Tacis in Brussels to have our budget reorganised to have additional inputs dedicated to studying electrification.

We have received approval in principle from Tacis in Brussels, subject to presentation of details.

The study will also, in co-operation with the managers of UTY and the Cabinet of Ministers,

- develop a revised business plan which will evidence the earning power and borrowing capacity of UTY and help justify bank lending
- recommend organisational measures accompanying the restructuring process, designed to make the process more effective and potentially less painful
- prepare recommendations for EBRD to lend money to UTY, earmarked for a few projects, selected for their particular relevance

conversely,



TRACECA

Central Asian Railways Restructuring - Uzbekistan

UTY will put an office at the disposal of the Consortium, and make it possible for the Consortium to obtain quickly the information necessary for meeting the above objectives.

Tashkent, Monday September 29<sup>th</sup>, 1997

Mr Normat E. Ermetov  
President of UTY

Mr Vincent Herriau, Team Leader  
on behalf of  
Mr Jack Higgins, Project Director

## VI. Учет и отчетность корпорации

1. Корпорация осуществляет учет результатов, контроль за дом производства, ведет оперативный, бухгалтерский и статистический учет.
2. Участники корпорации обязаны ежемесячно представлять корпорации статистическую отчетность, предусмотренную законодательством Республики Узбекистан, а также информацию, необходимую службам корпорации для осуществления своих функций.
3. Бухгалтерский и статистический учет и отчетность в корпорации ведутся в порядке, установленном законодательством Республики Узбекистан.
4. По месту нахождения корпорации ведется документация, в числе:
  - а) учредительные документы корпорации;
  - б) нормативные документы, регулирующие отношения внутри корпорации, с последующими изменениями и дополнениями;
  - в) все документы бухгалтерского учета и отчетности, необходимые для собственных решений корпорации;
  - г) протоколы заседаний Совета корпорации, правления и реви-зционной комиссии, список их членов, должностных лиц центрального аппарата.

## VII. Прекращение деятельности корпорации

1. Прекращение деятельности корпорации происходит путем реорганизации или ликвидации по решению Кабинета Министров Республики Узбекистан.
2. При реорганизации корпорации все права и обязанности, принадлежавшие ей, переходят к правопреемнику.
3. Орган, принявший решение о ликвидации корпорации, назначает ликвидационную комиссию. С момента назначения ликвидационной комиссии к ней переходят полномочия по управлению делами корпорации.
4. Ликвидационная комиссия оценивает наличное имущество, составляет ликвидационный баланс и представляет его конферен-ции участников корпорации.
5. Денежные средства корпорации, включая выручку от рас-продажи имущества при ликвидации, после расчета с работника-исполнительного аппарата и выполнения обязательств перед банками, бюджетом и другими кредиторами, распределяются ко-нференцией между участниками корпорации в порядке, определен-ном Советом корпорации и утвержденном конференцией, и участ-никами корпорации.
6. Корпорация прекращает свое существование в момент за-ключения ее из Реестра государственной регистрации.



## Кабинет Министров Республики Узбекистан

### ПОСТАНОВЛЕНИЕ

от 23 июня 1993 г. № 304

#### О ГЕНЕРАЛЬНОЙ ПРОГРАММЕ ЭЛЕКТРИФИКАЦИИ СРЕДНЕАЗИАТСКОЙ ЖЕЛЕЗНОЙ ДОРОГИ НА 1993—1995 ГОДЫ И НА ПЕРИОД ДО 2000 ГОДА

В целях повышения эффективности работы железнодорожно-го транспорта республики, ускорения электрификации как важ-нейшего фактора обеспечения устойчивой работы Среднеазиат-ской железной дороги, снижения затрат народного хозяйства рес-публики на перевозку, уменьшения вредного воздействия желе-знодорожного транспорта на природную среду Кабинет Минист-ров постановляет:

1. Утвердить программу перевода всех видов движения участ-ков главного направления Среднеазиатской железной дороги на электрическую тягу по этапам и срокам начала и окончания строи-тельства согласно приложению № 1.  
Считать осуществление генерального плана электрификации Среднеазиатской железной дороги республиканской государст-венной целевой программой.
2. Определить генеральным заказчиком электрификации — Среднеазиатскую железную дорогу, генеральным подрядчиком — Узбекскую государственную ассоциацию предприятий транспорт-ного строительства.
3. Госкомпрогнозстату, Министерству финансов Республики Узбекистан и финансирующим банкам при формировании прог-

ноза капитального строительства предусматривать выделение в необходимых объемах кредитных ресурсов, включая льготный долгосрочный кредит, для реализации республиканской государственной целевой программы по электрификации железной дороги.

4. Рекомендовать Центральному банку Республики Узбекистан создать для Среднеазиатской железной дороги и госассоциации «Узбектрансстрой» условия наибольшего благоприятствования в расчетах со странами СНГ за материальные ресурсы и оборудование для электрификации.

5. Узконтрактору ежегодно предусматривать выделение и поставку материальных ресурсов и оборудования по годам строительства и ввода объектов электрификации в эксплуатацию согласно приложению № 2.

Объединению «Узгоснефтепродукт» осуществлять выделение Среднеазиатской железной дороге и госассоциации «Узбектрансстрой» на транспортное обеспечение нефтепродуктов согласно расчетам на объемы электрификации.

6. Министерству энергетики и электрификации Республики Узбекистан принять функции заказчика по внешнему электроснабжению и реконструкции ЛЭП 35 кВ и выше при переходах через железную дорогу. Среднеазиатской железной дороге в соответствии с планами электрификации передать средства на эти цели, предусмотренные в общей смете строительства.

7. Принять предложение Министерства связи Республики Узбекистан и Среднеазиатской железной дороги о выполнении работ по проектированию, согласованные сроки «под ключ». Министерства связи, а также другим министерствам и ведомствам в зоне электрификации железной дороги за счет общей сметы строительства.

8. Совету Министров Республики Каракалпакстан, хокимиятам Ташкентской, Джизакской, Бухарской, Самаркандской, Навоийской, Хорезмской, Ферганской, Андижанской, Наманганской, Кашкардарьинской областей осуществить в установленном порядке и в установленные сроки отвод земельных участков и необходимые согласования для проектирования и строительства объектов электрификации Среднеазиатской железной дороги, а также выделять производственные товары по установленным нормам организациям, занятым на строительстве и монтаже.

9. Госассоциация «Узбектрансстрой» в течение 1993—1994 гг. создать специализированные предприятия по монтажу устройств электрификации и на базе своих предприятий и промышленных предприятий республики развернуть изготовление деталей, арматуры, конструкций контактной сети и оборудования тяговых подстанций в целях исключения их завоза из стран СНГ.

10. Контроль за выполнением настоящего постановления возложить на Заместителя Премьер-министра Республики Узбекистан т. Туляганова К. Н.

Председатель  
Кабинета Министров И. КАРИМОВ

Программа этапов строительства и сроков ввода в эксплуатацию  
участков Среднеазиатской железной дороги

№ п/п	Наименование участков и этапов	Эксплуатационная длина участков (км), в т.ч. двухпутных	Год начала и окончания строительства
I	Хаваст — Джизак — Суперфосфатная, Мехнат — Джизак	360/250	1993—1995
	1-й этап Хаваст — Джизак	89/0	1992—1993
	2-й этап Мехнат — Джизак	141/120	1993—1994
	3-й этап Джизак — Суперфосфатная	130/130	1993—1995
II	Хаваст — Коканд	190/190	1993—1996
	1-й этап Хаваст — Бекабад	40/40	1993
	2-й этап Бекабад — Худжент	40/40	1993—1994
	3-й этап Худжент — Канибадам	58/58	1994—1995
III	4-й этап Канибадам — Коканд	52/52	1995—1996
	Суперфосфатная — Бухара	309/100	1995—1998
	1-й этап Суперфосфатная — Зиадин	193/50	1995—1996
	Тинчлик — разъезд 138		
IV	2-й этап Зиадин — Бухара	116/50	1997—1998
	Суперфосфатная — Карши — Бухара	297/0	1997—1999
	1-й этап Суперфосфатная — Карши	140/0	1997—1998
V	2-й этап Карши — Бухара	157/0	1998—1999
	Ташкентский узел		
VI	1-й этап Салар — Ходжикент	66/0	1993—1994
	2-й этап Ташкент — Ангрен	114/0	1994—1995
VII	Ургенч — Кунград — Бейнеу	635/0	1995—1999
	1-й этап Найманкуль — Кунград	102/0	1995—1996
	2-й этап Кунград — Жаслык	171/0	1996—1997
	3-й этап Жаслык — Бейнеу	236/0	1998—1999
VIII	4-й этап Найманкуль — Ургенч	126/0	1997—1998
	Коканд — Андижан	322/0	1996—2000
	1-й этап Коканд — Алтыарык	51/0	1996—1997
	2-й этап Алтыарык — Андижан	85/0	1997—1998
IX	3-й этап Андижан — Наманган	95/0	1998—1999
	4-й этап Наманган — Коканд	91/0	1999—2000

Сроки и количество поставок основных материальных ресурсов

Наименование	Единица измерения	1993 г.	1994 г.	1995 г.	1996 г.	1997 г.	1998 г.	1999 г.	2000 г.
Медь	тонн	614	1136	1390	1240	1550	1615	2245	770
Алюминий	тонн	360	690	816	753	946	980	1306	470
Цинк	тонн	64	123	151	134	169	175	244	84
Свинец	тонн	64	123	151	134	169	175	244	84
Металло-прокат	тонн	7740	14820	18120	16140	20280	21060	29280	10080
Кабельная продукция	км	—	910	1730	2120	1890	2460	3420	1180
Шпала	тыс. штук	30	80	80	60	60	60	60	60
Переводной брус	компл.	40	40	60	60	60	60	60	60
Рельсы новые со скреплениями	км	20	40	40	30	30	30	30	30
Стрелочные переводы	компл.	40	40	60	60	60	60	60	60

**ACTION PLAN**  
**for Enhancement of Uzbekistan Railway Management Structure**

No.	Actions	Term	Responsible Entity
1.	To hear the heads , chiefs of the RW departments, the working group of a Commission about the actual system of management structure in the production, finance and economic areas of enterprises and of structural divisions of URW company. On the basis of international experience to produce recommendations and proposals for designing a new management structure for URW which would meet the requirements of market economy.	June, 1997	Work Group of the Government Commission for Enhancement of Uzbekistan Railway Management Structure.
2.	Drafting and discussions of proposed variants of management structures, envisaging the functioning of separate independent freight and passenger companies, the Association for Track use and maintenance and the Management Centre for RW transportation. The adoption of proper decisions.	July, 1997	Work Group of the Government Commission for Enhancement of Uzbekistan Railway Management Structure.
3	Consideration of functional management structures of being created companies in compliance of feasibility studies of their activity (the schemes of management structures, personnel duties, drafts of foundation docs, forecasts of production activity for a fiscal year, interaction tariffs)	Sept., 1997	Center for Enhancement of Uzbekistan Railway Management Structure.
4.	To define the List of legal entities and objects of existing structure the managed by the future "Pass-Trans" JS Co.	Aug., 1997	Center for Enhancement of Uzbekistan Railway Management Structure.
5.	To devise the management structure and Regulations on the Executive Staff of "Pass-Trans" and to submit for approval	Sept., 1997	Center for Enhancement of Uzbekistan Railway Management Structure.
6.	To devise and submit for approval to the Cab.of Min. the Regulations on the RW passenger stations of the Republic of Uzbekistan	Oct., 1997	Passenger and Legal Dpts., Center for Enhancement of Uzbekistan Railway Management Structure.
7.	To review the prevailing governmental statistics reporting on passenger transport and to renew the approval if necessary.	Oct., 1997	UTY Ministry of Macroeconomics and Statistics
8.	Dissemination of restructuring ideas, tasks and goals in labour collectives, using mass media.	1997-1998	Management and Heads of the UTY Dpts.
9.	Create another Commission for to transfer the entities and objects to "Pass-Trans" (PT) pursuant to clause 4. To establish the division balance between UTY Co. and PT	Sept-Oct., 1997	UTY
10.	To draft a Program for denationalization and privatization of objects and enterprises transferred under the auspices of PT. To introduce the proposals of distribution of leverage shares and equity shares of Joint stock Co. and of the JVs To specify the sizes of authorized funds of JS companies and of JS Co. "PT". To introduce a draft of a Decree of the Cab. of Min.	Dec., 1997	GKI, UTY
11.	To approve the list of services offered by "Pass-Trans" to other railway enterprises, as well as services provided by these enterprises to "Pass-Trans". Appropriate tariff rate should be approved.	Oct., 1997	UTY Central Management, "Pass-Trans" Company