

21. RESTRUCTURING OF THE AZERI AND GEORGIAN RAILWAYS

Geographic Focus:	Georgia and Azerbaijan Republic
Project budget:	EURO 1,000,000
Contractor:	GIBB Ltd
Implementation timetable:	June 1998 through February 1999

Background

The breaking up of the FSU and the creation of new independent railways in the Caucasus has resulted in disruption to operations and revenues of these railways. Freight traffic demand has typically been reduced by two-thirds. Tariffs have increased much more slowly than the rapid general price inflation in the country and railway finances have sharply deteriorated, despite strong restraint on expenditures. The downward trend of traffic levels has not yet stabilised and despite the expectation of economic recovery, it is unlikely that rail traffic volumes will ever again reach the levels of 1989. However, the EU Food Aid programme to the Caucasus guaranteed some volume traffic and the development of the Caspian oil fields is generating new traffic.

Now the fundamental changes in the market for railway services has led the Governments of Azerbaijan and Georgia to the conclusion that equally fundamental adjustments are required in the railway sector. These adjustments include the railway's relationship to the Government, its institutional and management structure, its physical assets and labour force, its operating and maintenance practices and its tariffs and debt collection abilities.

Objectives

- To develop restructuring strategies to transform the railway sector to a commercially driven, financially self-sustaining industry and elaborate detailed restructuring plans including the future relationship between Railway and Government
- To define investment packages suitable for financing by IFI
- To establish a plan for a project implementation unit and its co-operation with the existing railways as well as the required planning and implementation instruments both for urgent measures and overall requirements for the period 1998-2002.
- To provide commercial and financial orientation for future investment planning
- To assess environmental obligations and regulations within the 5-year restructuring plan.

Key Issues

This project is a final step in the facilitation of external funding for the rail companies concerned. The EBRD is in the process of exploratory negotiations with the beneficiaries. However the final project output could be of use to the beneficiary in negotiating with any IFI. As the actual financial conditions of the Railways, and associated debt servicing capacity, and cost structures become clearer, then it will be possible to disburse loans for improvement of priority facilities and equipment.

To assure long term viability for both debtor and creditor, there is a need for a review of the management of the present rail operating companies and in particular the correct degree and modality of state direction of their operations. EU directives are enforcing restructuring of railways in Europe and analogous actions could be appropriate in the Caucasus for example to define a split between regulatory functions, protecting public interest, and the technical or commercial operations being run as a business. Within the operating structure there is a need for division of activities into discrete business or service centres with their costs and revenues identified.

In particular identification of true operating costs, profits, and the value of the existing equipment and infrastructure need to be made, before establishing a viable plan for the future.