

# **EUROPEAN UNION - TACIS**

Technical Assistance to the Southern Republics of the  
CIS and Georgia - TRACECA

## **TRADE AND TRANSPORT SECTORS**

Terms of Reference

for

### **RESTRUCTURING of the AZERI and GEORGIAN RAILWAYS**

Final Recipients:

Ministry of Transport of Georgia and the Cabinet of  
Ministers of Azerbaijan.

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## **1. Background**

### **1.1. Origins of Study**

The EU-TACIS TRACECA Programme is seeking to assist the countries of the Caucasus in the development of transport corridors which promote trade between Caucasus countries and Europe. One of the functions of the TRACECA programme is to help identify investment projects which may be funded by International Financial Institutions (IFIs) such as the European Bank for Reconstruction and Development (EBRD). In this regard EBRD and EU-TACIS have been co-operating closely in their approach to the region, in particular in the railway sector.

EBRD's lending to publicly owned railways in its region of operations is designed to support railway commercialisation and to assist railway managers to respond effectively to competitive transport markets. The Bank also seeks the support of government owners to support that transition with appropriate legislative framework and transparent financial arrangements for support of any non-commercial activities imposed by government.

In May 1997, the EBRD was requested by the Georgian Railways and the Azeri Railways to extend a loan for railway infrastructure. The trans-Caucasian link, part of the historic silk route, provides the most important link from the Central Asian Republics through Baku Port, to Europe/North America through the Black Sea Ports.

The proposed investment would focus on priority works which may include track renewal and the replacement of bridges. Definition and specification of the investments are currently being carried out. They are to be further refined under this consultancy.

The ability of Georgia and Azerbaijan to service the Loan depends on the borrowing capacity of the railway sector. It is therefore important that the financial performance of the railway is improved. For this reason it was agreed between EBRD and the Georgian Ministry of Transport and Azeri Cabinet of Ministers that a railway commercialisation strategy is a necessary adjunct to the project. The EU-TACIS TRACECA programme has undertaken to make a grant of technical co-operation funds to the Georgian Government to develop the railway commercialisation strategy and to assist in support of preparation of specific engineering projects.

## **2. Rationale and Objectives**

The Governments of Azerbaijan and Georgia have requested technical and financial support from TRACECA which co-operates closely with the European Bank for Reconstruction and Development ('EBRD') to assist in the detailed design and implementation of the railway restructuring programme. TRACECA has agreed to provide technical assistance to support the Railway in further developing its plans for comprehensive restructuring and to define a priority programme of investments as

well as other measures needed to support implementation of the restructuring, which would then provide the basis for appraisal of loans from EBRD and other financing institutions. These Terms of Reference (TOR) define this technical assistance programme entitled Restructuring of the Georgian and the Azeri Railways Study (the 'Study').

Georgian and Azeri railways carry about 10 million tonnes of freight annually. The principal commodities are petroleum products (westbound), cereals (eastbound) and containers (both sides). About 80 per cent of this traffic is international and transit traffic. Traffic forecasts made by consultants engaged by EU-TACIS as part of its TRACECA programme suggest that petroleum products will continue to dominate west bound traffic, even when the western pipeline is complete, with the railways then concentrating on refined petroleum products. The composition of east bound traffic will however change, with a reduction in cereals as food aid to this region ends and an increase in construction materials and consumer goods (particularly containers traffic).

On the passenger side, traffic has declined by about two-thirds, falling from 1,000 million passenger-kms in 1994 to 371 passenger-kms in 1995. Passenger traffic contributes only three percent of railways revenue. The focus of the investment project will be on commercial freight operations. However, the restructuring plan will need to recommend solutions to the viability and funding issues involved in continued provision of passenger services.

The accounts of Georgian and Azeri Railways for 1996, compiled by TRACECA consultants, show a small operating surplus on a total turnover of about US\$ 60 million for each. Income is insufficient to carry out a full programme of maintenance and renewal.

Only 25 % of the fleet and 20 % of the locomotives are operational. These large non-operational fleets are partly the result of a failure to keep maintenance schedules up to date and the non-availability of the necessary spare parts. However, many of these assets are in any case obsolete or otherwise surplus to what requirements should be in an efficiently run railway. The restructuring plan will need to recommend an optimum fleet strategy.

The objectives of the Consultancy are, in close consultation with the Government and Railways Authority :

- Assess the local legislative environment, within the context of transforming Railway Departments to a joint stock company.
- Provide guidance on the drafting of a new Railway Law, which will give Railway Departments accountability and responsibility for the operation of the railway as a commercial undertaking and clarify the relations between the railway and the government (a model law has already been prepared and discussed with beneficiary agencies by the TRACECA Legal Reform project, see Annex)

- Provide guidance on the drafting of necessary documentation for the transformation of Railway Departments to a Joint Stock Company, with commercial incentives and appropriate organisation and corporate governance structures.
- Assist Railway Departments to develop a robust 5-year Business Plan for stabilising and then improving the financial performance of Railway Departments.
- Provide on-going assistance to Railway Departments in the detailed design of the investment package proposed for EBRD financing.
- Undertake a review of environmental problems and procedures and assist Railway Departments to develop an environmental management plan.

### **3. Risks and Assumptions**

The assumption is that the railways concerned do fully understand the need for and the importance of the restructuring plan, and its linkage to the follow-up investment which is expected. The risks are that the slow programme for external finance, will allow the railways concerned to continue to suffer irreversible institutional as well as technical declines. In this environment the intervention of external consultants may be seen as belated, irrelevant, and lacking in credibility.

### **4. Main Components**

#### 4.1. Tasks

The Study will include the following tasks in order to support the Georgian and the Azeri Government, in establishing the detailed planning and the implementation plan for the restructuring option decided by the Government.

##### 4.1.1. Assessment of the Georgian and the Azeri Legislative Environment

The consultants shall investigate the legislative environment for the new railway Law and the company memoranda required to establish Railway Departments as an autonomous company.

##### 4.1.2. Draft Railway Law

The Consultant will provide guidance to the Governments in the drafting of a new railway Law. This first be based upon the TRACECA Legal and Regulatory Framework Project, which has developed a framework for a legal code for each transport mode in the TRACECA countries. The new Law should allow the following objectives:

- the separation of policy, regulatory and operating responsibilities in the railway sector, and the need for operational responsibilities of railways to be discharged according to commercial principles;
- the importance of phasing out cross-subsidy of passenger services by freight;
- the importance of a budgetary compensation mechanism for loss-making passenger services or other loss-making obligations imposed by Government;
- the need for freedom of tariff setting in freight transport with independent regulation of freight tariffs restricted to situations where there is opportunity for abuse of monopoly power;
- the separation and divestment of ancillary and other non-core rail businesses;
- the desirability of encouraging private sector participation and investment in the railway industry;
- the obligation to meet minimum standards of environmental performance.

The draft is expected to be widely discussed with Railway Departments and relevant government departments and legal advisers during the drafting process and should be presented to a high legal drafting standard. The draft Law which is delivered should be produced in form and content which, if acceptable to the government, is appropriate to subsequent parliamentary examination and promulgation.

#### 4.1.3. Organisational and management structures

The Consultant shall review, analyse and recommend appropriate changes to Railway Department corporate governance, organisation and management structures, taking account of the above policy objectives, the proposed new Railway Law and the nature of transport markets. The consultant should recommend the option or options which, in the Consultant's view, is most likely to be effective to promote the policy objectives in Georgian circumstances over the next five years. The Consultant should prepare a detailed organisational charts, specify departmental responsibilities and key interactions and necessary transactions between departments.

Working closely with Railway Departments, the Consultant will identify the main problems and constraints in implementing the favoured option(s) and identify a suitable process and timetable for implementation, incorporating proposals to overcome the identified problems.

The Consultant shall advise on the preparation of drafts of necessary documentation (equivalent under Georgian or Azeri Law to the concept of company Memoranda and Articles of Association) for the formation of Railway Departments as an autonomous company, owned by the Government.

#### 4.1.4. Business Plan

A 5-year (1999-2003) Business Plan is to be developed (for each Railway Department ) which will stabilise and thence improve the commercial performance of SR taking account of realistic traffic expectations, revenue freedoms, resource constraints and all reasonable opportunities to improve productivity levels.

***Passenger services***

The Consultant shall analyse passenger traffic and develop 5-year projections for international, commuter and other domestic services.

The Consultant shall assess current operating and commercial strategies for passenger business sectors and recommend a 5-year plan for improving commercial performance: the plan should set out business objectives and broad physical and financial performance targets and include, but not necessarily be limited to plans for:

- passenger service levels and standards
- employment levels and labour productivity
- driving and on-board train crew levels and rostering practices
- rolling stock numbers and utilisation
- rolling stock servicing and repairs
- stations and station manning
- treatment of low density traffic lines
- passenger management information and control systems
- passenger marketing
- passenger fares policies
- reimbursement for concession fares
- reimbursement for loss-making services
- investment priorities

***Freight transport services***

The Consultant shall analyse freight traffic flows and develop 5-year projections for major rail freight commodities. The Consultant should assess current operating and commercial strategies for freight business sectors and recommend a 5-year plan for improving commercial performance: the plan should set out business objectives and broad physical and financial performance targets, and include, but not necessarily be limited to plans for:

- freight train operating strategies
- wagon shunting and train marshalling practices
- rolling stock servicing and repairs
- terminal handling, including freight loading and unloading methods
- border activities
- crew levels and rostering practices
- locomotive and wagon numbers and utilisation
- freight accounting systems
- freight management information and control systems

freight marketing  
tariff policies  
investment priorities

***Network infrastructure***

The Consultant shall assess current operating and management strategies for the infrastructure management and control function and recommend a 5 year plan for improving efficiency and effectiveness in meeting the needs of passenger and freight rail transport: the plan should set out network objectives and broad physical and financial performance targets and include, but not necessarily be limited to plans for:

track maintenance and renewal  
train control maintenance, renewal and operation  
power supply maintenance  
telecommunications systems  
asset management information and control systems  
work practices, labour levels and labour productivity  
investment priorities;

***Corporate and other activities***

The Consultants shall assess central corporate management functions and recommend a 5 year plan for improving the efficiency and effectiveness of the corporate functions.

In addition, the Consultant should review and analyse the role and performance of ancillary businesses and other assets and activities and recommend a 5 year plan for improving the contribution of such activities to meeting the Business Plan, including divestment.

***Corporate financial model***

The Consultant shall develop a computer financial model or models which will demonstrate the impact of specific recommended measures on the financial performance of SR. It should also be used to provide projections of Railway Departments income statements, balance sheet and cash flow statements drawn up according to generally accepted principles.

Statements should be drawn up at a sufficient level of detail to desegregate, at a minimum, passenger business, freight business, infrastructure management, corporate overheads and ancillary activities. Projections are to be consistent with the 5-year Business Plan until 2003 and indicative thereafter. It is acknowledged that data from financial accounting systems is unlikely to provide for precise re-aggregation into the management accounting categories required for business planning but the Consultant should employ experienced railway costing/management accounting personnel who are able to undertake the required analyses and re-allocations to provide the breakdowns sought.



4.1.4. While it is likely that the preliminary technical specifications for the investment component of the EBRD Loan will be undertaken by the Railway Department a need will exist to develop these specifications to international norms and, the procurement rules of the EBRD (or eventually TACIS). The consultant will provide on-going technical monitoring and assistance to Railway Departments to facilitate the production of draft technical specifications.

Domains of interest for investment at present in Georgia include:

- Track renewal
- Track maintenance equipment
- Bridge works
- Overhead contact
- Signalling and communications

This last item may eventually be covered elsewhere and other elements substituted.

#### 4.1.5. Environmental Assessment and Management Plan

The Consultant shall meet with relevant environmental ministries and identify and report on environmental laws and regulations as they apply to railways. The Consultant shall carry out a review of environmental problems and procedures and shall assess these against the relevant Georgian and Azeri laws. The Consultant will assist Railways Departments to prepare an Environmental Management Plan for the railways reflecting approaches described in the EBRD Environmental Policy and Procedures.

#### 4.1.6. Know-how Transfer and Forums for Discussion of the Project Progress

The work plan proposed by Consultants should allow for transfer of technical skills to key Railway Departments and Ministry of Transport or Cabinet of Ministers staff in matters such as commercialisation, business planning, environmental management and so on. This will require a series of at least three seminars involving Senior Railways Department management and Ministry staff. The Seminars should explain and discuss methodology at commencement, on-going analysis, emerging outputs and final conclusions.

The consultant may propose that the seminars be organised at a location within the region.

#### 4.2. Outline of Implementation Procedures

The substantial technical steps required for project implementation have been integrated into the work packages.

The consultant will work with national rail company directors or their designates. The railway will be expected to make available all existing information useful for the performance of this study.

Local experts or Institutions must be engaged as staff by the consultant for routine data collection and logistic support. The evaluation of tenderers proposals will be based in part on the detail and credibility of their dispositions to work with local entities. Time allocated to local staff (as distinct from Counterpart staff) must be clearly shown in the proposal.

EU consultants must spend a maximum of working time in the region.

Any assemblies of counterparts or local experts within the NIS are to be arranged entirely at the expense of the consultant, including travel and accommodation of participants. Likewise office space, interpretation, secretarial services, and all other inputs required for the purposes of the work are to be provided by the consultant.

#### 4.3. Timetable

The Consultant will mobilise its team in Georgia and in Azerbaijan in same time within 15 days after award of the contract. Total duration of the assignment will be six months.

#### 4.4. Global budget

Maximum 10% of the total budget should be foreseen for information technology and telecommunications equipment to be utilised by the project team and left with the beneficiary at the end of the project. TACIS procurement rules must be respected.

At least 15 % of the project budget should be foreseen for local experts, interpreters, secretarial support etc.

The allocation of resources for the technical assistance expertise required is left to the tenderer to propose. Technical propositions should clearly indicate the time allocated to each expert and his role in the team. The following fields of expertise should be included:

- Senior railways management consultant (Team leader)
- Institutional/management specialist
- Economist/Financial analyst
- Transport legal specialist
- Railway Operations Specialist
- Rolling stock/workshops engineering specialist
- Infrastructure engineer
- IT/Accounting/MIS specialist
- Labour adjustment/training/retraining specialist
- Environmental Management Specialist

The global project budget is 1 000 000 ECU.

## 5. Reporting

All reports are to be delivered in the numbers, languages and locations as follows:

	Bound		Loose-leaf		Diskette
	English	Russian	English	Russian	(Eng.+Rus)
TACIS Brussels	2	1	1	1	0
TRACECA Brussels	5	1	1	1	1
TRACECA Tbilisi	1	1	1	1	1
TRACECA Tashkent	1	1	1	1	1
TACIS CU AZERBAIJAN	1	5	0	0	0
TACIS CU GEORGIA	1	5	0	0	0
Beneficiary National Railway Head Offices	1	5	1	1	0
EBRD London	1	1	1	1	1

At least one copy of each report should be delivered directly to the key project participant in each country.

Copies of the Delivery Notes to all recipients are to be provided by fax to the TRACECA co-ordination team offices in Tbilisi and in Brussels.

The word processing programme to be used will be agreed with TACIS. Reports will be made accessible via the World Wide Web by the co-ordination team, and the diskettes must be organised simply to permit this.

The importance of high quality Russian texts, delivered on time, cannot be overemphasised.

Any software to be provided as a Deliverable should be in Russian, as should the manuals.

Reporting is to be in accordance with standard TACIS Guidelines. These foresee:

### *Inception report*

The Inception Report is to be issued 1month after the contract start date. It shall summarise initial findings and propose any modifications to the methodology and work plan. In particular, it will adapt the work plan to the needs of each individual TRACECA state taking into account the parallel activities of other Technical Assistance programmes, avoiding duplication of effort, and addressing unfulfilled needs.

It will also confirm or amend the list of Institutes/organisations/consulting bodies to be directly involved in the implementation of the project.

#### *Final report*

The draft final report will be submitted as an interim report at the end of month 4, and the final report at the end of month 6 (Russian and English version at same time). TRACECA and EBRD will review the report simultaneously with the Railway, and comments will be rendered to the Consultant within 1 month from date of receipt. The Consultant shall then prepare a revised report reflecting the combined comments of the Railway and the Final Report will be rendered at the end of month 6, as well as the project completion reports.

### **6. Factors Ensuring Sustainability**

The project is vital for the enablement of outside investment in the railways concerned. In this respect it places the initiative for sustainability on the consultant (to design a viable restructuring plan which will ensure the beneficiaries ability to survive and reimburse any eventual loan, in a competitive economic environment) as well as on the beneficiary to implement the plan.

### **7. Environmental Impact**

Environmental impacts are listed among the Main Components of the project. The project itself will have no direct environmental impact.

### **8. Monitoring and Evaluation**

The key indicators of success will be:

- engagement in open and constructive dialogue with the concerned railways senior management and the government hierarchy controlling them
- production of a restructuring plan acceptable to the beneficiary governments and to the EBRD
- design of investment packages acceptable to the beneficiary governments and to the EBRD

**ANNEX to the TRACECA RESTRUCTURING of Georgian and Azeri  
Railways Study**

**PAST AND PRESENT PROJECTS OF DIRECT INTEREST TO THE STUDY**

**TRACECA PROJECTS**

Documentation concerning these projects is available for consultation by tenderers in the TRACECA Co-ordination team offices in Brussels and in Tashkent. Copies of reports will not be supplied at tender stage and should not be requested.

As some of these projects are distinctly duplicated by the TRACECA/EBRD project, the onus is placed firmly on the consultant carrying out the TRACECA/EBRD project to seek complementarity, to avoid wasteful double deployment of EU resources, and to avoid confusing beneficiary state rail management with duplicatory questions and similar sounding mission objectives.

**LEGAL FRAMEWORK**

A substantial transport legal framework project started in December 1995 and will continue until December 1997. At present a rail codex (as well as road and maritime) have been drafted and are under discussion at Ministerial level and higher within the beneficiary states. They cover in detail freight transport, and in skeleton form passenger transport. They have met general approval as suitable models and it is anticipated that legislation will result during the 1997.

**TRAFFIC FORECASTING**

A substantial transportation data base and modelling study started in December 1995 and will end in July 1997. Traffic data has been collected for 21 commodity groups across eight countries, based on customs returns, rail, road and maritime traffic statistics, and user surveys. It is believed that the data collection from established non-security rated sources has been fairly exhaustive. Forecasts will be produced based on a range of scenarios. Many contradictions in traffic declarations have been noted, within and between different TRACECA projects.

**RAIL INFRASTRUCTURE MAINTENANCE**

Started in February 1996 and will end in October 1997. The project is producing recommendations and carrying out a detailed survey of the existing situation of infrastructure ( Georgia and Azerbaijan ).

**RAIL ROLLING STOCK MAINTENANCE**

Started in December 1995 and will end in March 1997. The project is producing recommendations on the re-organisation of rolling stock maintenance, on a regional basis. Reporting includes existing facilities, status of spares inventories, and spares procurement procedures.

**JOINT VENTURE for the Trans-Caucasian Railways**

Started in July 1996 and will end in October 1997. The project is producing recommendations on the mutual co-operation between the Railways of Caucasus evaluations economic and financial aspects of alternatives.

#### INTERMODAL TRANSPORT

Started in December 1995 and will end in early 1997. The project is producing recommendations on the development of container traffic in the region. Reporting includes existing infrastructure, equipment and institutions.

#### TARIFFICATION AND TIMETABLES

A substantial project based in Tashkent started in August 1996 and will end in February 1998. It addresses core issues of commercialisation of freight traffic, particularly transit traffic. It will recommend and promote regional collaboration on business development for the rail sector. It will design and attempt to implement collaborative mechanisms for promotion of rail transport, new rail tariff models and financial arrangements between regional railways and their clients. There is a most distinct risk of duplication between this project and the TRACECA/EBRD project, hence particular attention is to be paid to co-ordination.