Operation Performance Evaluation Review

Environmental Analysis & Audit and Assistance with Restructuring - Regional Railway - Bosnia and Herzegovina (Public Sector Technical Cooperation Operations) September 2009
This Evaluation Report
The subject of this Operation Performance Evaluation Review (OPER) are the public sector Technical Cooperation (TC) operations “Environmental Analysis & Audit” and “Assistance with Restructuring”, which involved, on commitment basis, a funding of €30,000 and €300,000, respectively. The funding was provided under the Italian Central European Initiative (CEI) facility as part of the Bank’s Technical Cooperation Funds Programme (TCFP). The TCs were meant to facilitate the Bank’s loan “Bosnia and Herzegovina: Regional Railway Project” (BDS05-175), the Bank’s second loan in this transport sub-sector in the country. The OPER has been executed by Wolfgang Gruber, Senior Evaluation Manager.

Josip Polic, Principal Banker of the Resident Office (RO) in Sarajevo (Bosnia and Herzegovina) prepared the self-evaluation (TC) Project Completion Report (PCR) for the second TC; a PCR for the first-mentioned TC is not available. The operation team and other relevant Bank staff commented on an early draft of this report. The Basic Data Sheet on page [iii] of this report and the PCR in Appendix 4 are complementary to this OPER and designed to be read together.

Information on the TC operations was obtained from relevant teams and departments of the Bank and its files as well as from external sector and industry sources. Fieldwork was carried out in June 2009. Appendix 1 presents a list of contacts. EvD would like to take this opportunity to thank those who contributed to the production of this report.

Post-Evaluation Selection and Process
Selection of an operation for post-evaluation by EvD uses the following criteria: relevance to the Bank's likely future operations; lessons-learned potential; size of the Bank's TC commitment/exposure; balance among countries of operation; balance among sectors and types of operations; relative priority of OPERs of TCs within EvD's overall work programme priorities and resources.

The Bank's post-evaluation process is described in Chapter 8 of the Operations Manual. The responsible Operation Leader first writes a PCR in the Consultant Assignment Reporting (CAR) system. The PCR report serves a self-evaluation function and establishes the basic facts and lessons from the operation's implementation outcome and future prospects. EvD’s independent evaluation follows, using the PCR as one of several inputs.
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ABBREVIATIONS

AER  Annual Environmental Report
BD  Banking Department
BHRPC  Bosnia and Herzegovina Railways
BiH  Bosnia and Herzegovina
CEI  Italian Central European Initiative
EAA  Environmental Analysis and Audit
EAP  Environmental Action Plan
ED  Environmental Department
EIA  Environmental Impact Assessment
EIB  European Investment Bank
EIRR  Economic Internal Rate of Return
ERM  Environmental Resources Management
EUFOR  European Union Military Forces.
EvD  Evaluation Department
FBH  Federation of Bosnia and Herzegovina
FY  Former Yugoslavia
FIRR  Financial Internal Rate of Return
GPS  Good Practice Standards
IFI  International Finance Institution
MOCT  Ministry of Communication and Transport
MR  Monitoring Report
OCE  Office of the Chief Economist (EBRD)
OGC  Office of the General Counsel (EBRD)
OL  Operation Leader
OPER  Operation Performance Evaluation Review
OpsCom  Operations Committee
OT  Operation Team
PCR  Project Completion Report
PIU  Project Implementation Unit
RS  Republika Srpska
TC  Technical Cooperation
TCFP  Technical Cooperation Funds Programme
TOR  Terms of Reference
USD  United States Dollar
XMR  Expanded Monitoring Report
ZBH  Railways of Bosnia and Herzegovina
ZFBH  Railways of the Federation of Bosnia and Herzegovina
ZHB  Railways of Herzeg-Bosnia
ZRS  Railways of Republika Srpska
DEFINED TERMS

the Bank  European Bank for Reconstruction and Development.
the OPER Team  Staff of the Evaluation Department and the independent sector consultant who jointly carried out the post-evaluation
the Operation Team  the staff in the Banking Department and other respective departments within the Bank responsible for the Operation appraisal, negotiation and monitoring, including the XMR.
OPERATION PERFORMANCE REVIEW
ENVIRONMENTAL ANALYSIS & AUDIT AND ASSISTANCE WITH RESTRUCTURING
(BOSNIA AND HERZEGOVINA)

BASIC DATA SHEET

Operation Code 35418
Location: Bosnia and Herzegovina
Operation: Environmental Analysis & Audit with Restructuring
Sector: Transport
Type: Technical Cooperation
Facilitators: CEI / TCFP
Bank Unit: Sarajevo

A. Funding

<table>
<thead>
<tr>
<th>TC</th>
<th>Commitment number</th>
<th>Commitment title</th>
<th>Amount (EUR million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TC1</td>
<td>CEI-2005-08-07</td>
<td>Environmental Analysis and Audit</td>
<td>0.030</td>
</tr>
<tr>
<td>TC2</td>
<td>CEI-2006-12-12</td>
<td>Assistance with Restructuring</td>
<td>0.280</td>
</tr>
<tr>
<td>TC3</td>
<td>CEI-2007-08-06</td>
<td>Assistance with Restructuring (extension)</td>
<td>0.020</td>
</tr>
</tbody>
</table>

B. Procurement

Consultant services
- Mode: Direct Selection, Competitive Selection
- Sources by country: Italian

C. Visits

<table>
<thead>
<tr>
<th>Type of Visit</th>
<th>No. of Visits</th>
<th>Person-days</th>
</tr>
</thead>
<tbody>
<tr>
<td>EvD/OPER</td>
<td>1</td>
<td>4</td>
</tr>
</tbody>
</table>
Map 1: International Railway Corridor Lines in Bosnia and Herzegovina

LEGEND:

V - V PAN EUROPEAN CORRIDOR V
X - X PARALLEL TO PAN EUROPEAN CORRIDOR X
Map 1: International Railway Corridor Lines in Bosnia and Herzegovina

Legend:
- **V** - PAN EUROPEAN CORRIDOR V
- **X** - PARALLEL TO PAN EUROPEAN CORRIDOR X
1. **THE PROJECT**

1.1 **Setting the stage**

Before the war of 1992-95, Bosnia & Herzegovina (BiH) railways formed part of the former Yugoslav Community of Railways, with almost all lines in Bosnia Herzegovina being under the control of the Railway Transportation Company, Sarajevo. Before the break-up of Former Yugoslavia (FY) during the 1990s, railway infrastructure had already dilapidated to a dismal state and the war’s destruction further took its toll. Even now, several important routes are still not yet electrified, are single track, have high gradients and meandering sections – all of which ultimately leads to slow speeds. Deficient railway infrastructure and opaque management and decision-making structures have impacted detrimentally on economic development. Thus, by way of addressing these damages and deficiencies and assisting towards the country’s economic development and regional integration several external financiers, including the European Bank for Reconstruction and Development (EBRD or “the Bank”), are providing investment and Technical Cooperation (TC) support. The fostering of the pan-European transport integration is a further dimension of this support.

Following the Dayton Peace Accord signed in November 1995 the ownership of railway infrastructure was transferred to the two BiH political entities, the “Federation of Bosnia and Herzegovina” (FBH) and the “Republika Srpska” (RS). Originally, the administration responsibility was vested in three railway authorities: Railways of Bosnia and Herzegovina (ZBH) and the Railways of Herzeg-Bosnia (ZHB), as well as Railways of Republika Srpska (ZRS). In turn, ZFBH and ZRS are coordinated under both railways’ apex-body: the Bosnia and Herzegovina Railways Public Corporation (BHRPC). This apex was founded in 1998 with the aim of co-ordinating railway policies throughout the country, of promoting the development of infrastructure, co-ordinating the operations of both and of dividing the revenues amongst both, as well as installing a Project Implementation Unit (PIU) to facilitate externally funded railway projects. The BHRPC Management Board consists of representatives from the three (after the merger in 2002: from the two) railway companies and of government officials from the two entities. The responsibility demarcation lines between ZFBH and ZRS follow more or less ethnic boundaries. ZFBH and ZRS are both vertically integrated railway companies covering both railway infrastructure and operations.

Hence, the institutional structure of the railway sector is complex, respective operational and financial responsibilities scope of activity is comparatively small, and decision-making is often marred by ethnical considerations which appear to take precedence over technical and economic factors. The experience from the captioned TCs is no exception to this. The railway companies all rely heavily on subsidies from their respective entity-level Ministries of Transport and Communications and in turn follow entity rules and investment priorities in allocating funds. All this complicates coordination among the entity railway companies considerably.

The backbone of the BiH railway network is composed of two international corridors crossing the territories of the entities:

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1. This section draws substantially on evaluation work carried out by this OPER author in 2003 for other TC operations in the sector and depicted in Table 1 further below.
2. Which eventually merged in 2002 into the Railways of the Federation of Bosnia and Herzegovina (ZFBH).
(i) The Pan European Transport Corridor Vc passing north-south through BiH and connecting two Croatian border points (Doboj-Sarajevo-Mostar-Capljina) over a total length of 426 km and leading further on to the Ploce Port on the Adriatic Sea.

(ii) A transversal east-west line parallel to Corridor X from the Serbian to the Croatian border (Zvornik-Tuzla-Doboj-Banja Luka) over a total length of 285 km.

The international connections and the importance of Corridor Vc and the line parallel to Corridor X are shown in the map at the beginning of this report (Map 1) which also depicts major externally funded infrastructure investments to which reference is made in the next Section.

1.2 External sector interventions

According to the most recent official account that could be obtained by the Evaluation Team from the BiH Ministry of Communication and Transport (MOCT)\(^3\), in recent years the country’s railway system has benefited from investments to the tune of €218.7 million worth of fund approvals, with €216.7 million approved since 2001 alone. The main contributors to this portfolio are the European Investment Bank (EIB) with about 54.5 per cent and the European Bank for Reconstruction and Development (EBRD) with about 40.8 percent; other contributors include the Railways of the Federation of Bosnia and Herzegovina (ZFBH), the Railways of Republika Srpska (ZRS), the European Union (military) Forces (EUFOR), and bilateral infusions from Canada and Japan. Unfortunately, no corresponding MOCT data on Technical Cooperation (TC) grant funding could be obtained, although this is believed to be substantive as well.\(^4\)

So far, the Bank has provided two railway loans and a number of Technical Cooperation (TC) operations attached to them. The Bank’s detailed intervention record is depicted in Table 1 below. The main interventions consist of two sovereign loans:

- The first externally funded post-war investment project was approved in 2001 and driven by “severe operational restrictions, and increasing concerns about safety, by railway companies which are heavily dependent on government subsidy, lack commercial focus and are over-staffed”. It was a loan to BiH\(^5\) in the amount of € 21 million\(^6\) and complemented by an EIB loan in the amount of € 31 million. In addition to the Bank’s loan, complementary grant funds in the amount of € 4.4 million had been secured by the Bank from the Governments of Japan, Canada and the USA because of the Project’s inclusion in the South East Europe Strategic Initiative Pact (Stability Pact) as an A-list project.\(^7\) Several of these EBRD undertakings were subjected to independent reviews by the Bank’s independent Evaluation Department (EvD) and rated “Successful”.

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\(^3\) Data since 1997 and recorded as of June 2008 (Appendix 5)

\(^4\) For instance, the Bank’s Board Document for the second loan (BDS05-175) notes a pre-loan effectiveness €4 million TC for the preparation of detailed designs and procurement assistance provided under the EU-CARDS programme, a post-signing €1 million twinning programme financed from the same source; these TCs were not channelled through the Bank.


\(^6\) For on-lending to the two entities and subsequently to the (at that time three) publicly owned railway companies.

\(^7\) Overall there have been four TCs linked to the investment: Project Scoping Study (Swedish SIDA); Post-Signing: Engineering investigations for the Jedrinje tunnel (Japan’s JPCF); Assistance with tendering, project implementation and supervision (USA’s USTDA); and Implementation of IAS accounting and Business Planning by (Canada’s CIDA).
The second sovereign loan by the Bank, made in 2005, provided € 70 million to the State of BiH, with Support Agreements from the two entities. This loan was aimed at the two entity railway companies for

- renewal of track and structures on the sections from Konjic to Mostar, Mostar to Caplijna and Kostajnica to Jošavka, on the Pan-European Corridor Vc and parallel to the Pan-European Corridor X;
- rehabilitation of the station and route control signalling, telecommunications, power supplies and overhead line equipment,
- design of telecommunication components and supervision of all works under the project.\(^8\)

This investment is still under implementation and facing severe delays (believed to be in the magnitude of three years or more). Also this investment was complemented by the EIB at about € 76 million with a number of TC operations, notably including the earlier footnoted EU-CARDS twinning assistance.

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\(^8\) The Bank’s loan was co-financed by the European Investment Bank (EIB) at a 50:50 split for each component.
### Table 1: Bank’s investment and TC exposure*

<table>
<thead>
<tr>
<th>No.</th>
<th>Month/Year of Bank Approval</th>
<th>Type</th>
<th>Operation</th>
<th>Funding</th>
<th>Source Reference (BDS No. or Commitment Number)</th>
<th>Evaluation (year/type/rating)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>IV/2000</td>
<td>TC</td>
<td>Project Scoping Study</td>
<td>0.199</td>
<td>SWE-2000-06-06</td>
<td>Team: PCR VI/2002; S EVD: III/2004; OPER, S</td>
</tr>
<tr>
<td>1.1</td>
<td>I/2001</td>
<td>TC</td>
<td>Accounts Strengthening and Business Planning</td>
<td>0.500</td>
<td>CANSE-2001-01-01</td>
<td>Team: PCR III/2008; S</td>
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<tr>
<td>1.2</td>
<td>II/2001</td>
<td>TC</td>
<td>Railways Recovery Project (IT Hardware for MIS)</td>
<td>1.220</td>
<td>CANSE-2001-02-02</td>
<td>Team: PCR VI/2008; S</td>
</tr>
<tr>
<td>1.3</td>
<td>IV/2001</td>
<td>TC</td>
<td>Assistance with Project Implementation</td>
<td>0.470</td>
<td>USTD-2001-04-01</td>
<td>Team: PCR III/2007; PS</td>
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<tr>
<td>1.4</td>
<td>V/2001</td>
<td>Loan</td>
<td>Railways Recovery Project</td>
<td>21.000</td>
<td>BDS01-45</td>
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<td>1.5</td>
<td>X/2002</td>
<td>TC</td>
<td>Railways Recovery Project (Jedrinje Tunnel Investigation Works)</td>
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<td>Team: PCR III/2004; HS</td>
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<td>1.8</td>
<td>VII/2004</td>
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<td>Team: PCR III/2008; S</td>
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<td>2.0</td>
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<td>Project scoping</td>
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<td>Team PCR: not available EvD: This evaluation.</td>
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<td>2.1</td>
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<td>TC</td>
<td>Environmental Analysis &amp; Audit</td>
<td>0.030</td>
<td>CEI-2005-08-07</td>
<td>Team PCR: not available EvD: This evaluation.</td>
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<td>2.2</td>
<td>XI/2005</td>
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<td>Regional Railway Project</td>
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<td>Still under implementation</td>
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<td>2.3</td>
<td>XII/2006</td>
<td>TC</td>
<td>Assistance with Restructuring</td>
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<td>CEI-2006-12-12</td>
<td>Team PCR: Good EvD: This evaluation.</td>
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<td>2.4</td>
<td>VIII/2007</td>
<td>TC</td>
<td>Assistance with Restructuring (extension)</td>
<td>0.020</td>
<td>CEI-2007-08-06</td>
<td>Team PCR: Good EvD: This evaluation.</td>
</tr>
</tbody>
</table>

*Complementary to (but not necessarily well coordinated with) the Bank’s support there is a myriad of other external (TC and investment) funding, however, with the investment co-financing by the Bank and the European Investment Bank (EIB) being regarded as the back-bone of the railway infrastructure system. **Rating scale: Highly Successful (“HS”); Successful (“S”); Partly Successful (“PS”); Unsuccessful (“US”)
1.3 Evaluation subject and scope

The subject of this Operation Performance Evaluation Review (OPER) is the two public sector Technical Cooperation (TC) operations “Environmental Analysis & Audit” and “Assistance with Restructuring”. These involved, on a commitment basis, a funding of €300,000 provided under the Italian Central European Initiative (CEI) facility as part of the Bank’s Technical Cooperation Funds Programme (TCFP) and as shown in Table 1 as position numbers 2.1, 2.3 and 2.4. Both TCs were meant to facilitate the Bank’s loan “Bosnia and Herzegovina: Regional Railway Project”, the second loan in this transport sub-sector. Whilst 2.1 forms part of investment due diligence, 2.3 and 2.4 are post-investment approval/signing interventions.

The evaluation, covering desk study and field work as described in the Preface, tries to answer a number of questions, including:

- were the TCs relevant in their own rights and as part of the associated investment and did the respective consultant terms of reference (TOR) reflect this relevance?;
- did the TCs deliver what was expected in terms of (i) direct outputs, (ii) expected outcomes/results, and (iii) impacts?;
- were the framework conditions favourable (including, counterpart involvement, absorption capacity) and key stakeholder performances as expected (including, willingness to act upon consultant advice, Bank Handling, Counterpart Handling)?

2. PROJECT RATIONALE

Both TCs were addressing legitimate needs in association with the related investment, and the investment itself is regarded in full compliance with the country strategy for Bosnia and Herzegovina, the transport operations policy for 2004-2008 and the agreement establishing the Bank.

3. ACHIEVEMENT OF OBJECTIVES

3.1 Environmental analysis & audit

3.1.1 Relevance and objectives

The second investment project, also intended to “contribute to the improvement of safety and environmental standards related to operation and maintenance of the two railway systems”, was screened B/1. More generally, according to the EBRD’s environmental procedures, all ‘green-field’ or major extension or transformation projects not included in the list ‘A’ level operations are subject to a project-specific ‘B’ level environmental analysis and audit (“EAA”) unless location, scale or other factor require an ‘A’ level environmental impact assessment (“EIA”) to be undertaken. From a procedural perspective, an EAA was therefore required. From a substance perspective, ZFBH and ZRS environmental and health and safety management in connection with the first loan were regarded as inadequate and the existing environmental action plans (EAPs) were lacking in various dimensions.

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9 It deserves noting that 2.4 is purely a small extension of 2.3 which became necessary to cover the cost of translation of a large number of deliverables identified under 2.3 and which, for the purpose of this evaluation, is dealt with as an integral part of 2.3.
10 BDS05-175
11 BDS/BH/05-01(F)
12 BDS04-072
This called for an EAP updating initiative as part of the due diligence process for the second loan, including:

- a description of the company’s activities;
- a review of the existing organisational, managerial, financial and environmental conditions of all units, departments/divisions of the company;
- a list of all the taxes, and penalties/fees which the company is required to pay;
- a full waste and energy audit to determine the current efficiency of the company’s working processes;
- potential environmental impacts of the suggested upgrade/rehabilitation of the railway companies.

3.1.2 Achievements

The environmental B/1 categorisation is regarded appropriate. Both the board paper and the loan agreement refer to the EAPs. In accordance with the Bank’s 2003 policy, the EAP should address actions needed to ensure that (1) the actual EBRD investments (“use of proceeds”) fully comply with EU standards and (2) a plan is in place to bring all the operations of the railroads into compliance with EU standards. The upgrading of the BiH railroads is an ongoing process. EBRD is making a valuable contribution, but it is unrealistic to expect that the railroads will fully achieve EU standards with the investments in place to date. As is routine with MEI projects, where the investments are expected to result in positive changes towards meeting EU standards but will themselves not achieve this goal immediately since they form part of a longer-term process, a derogation to the respective policy requirements is obtained.

The due diligence process was expected to result in three outputs: environmental assessment, environmental audit (together referred to as EAA), and environmental action plan (EAP).

As no new construction was planned, there are likely to be no major environmental or social impacts involved other than waste management, occupational health and safety concerns and affordability issues. These railroads pass through sensitive areas and along river courses. EvD would have expected a much greater biodiversity analysis along the right-of-way which was not explicitly covered.

Also, a much greater focus should have been placed on disposal of waste streams. Many of the local communities where there are stations and railroad yards, lack wastewater treatment. The report states that wastewater is to be discharged to local sewers. EvD argues that since many communities are lacking appropriate treatment facilities the consultant’s recommendation is inappropriate, or at least is lacking specificity: wastewater facilities at nodal points should have been inspected and checked as to their capacity sufficiency and environmental appropriateness; suitable discharge points should have been identified and included in respective operational procedures. Similar observations pertain to solid waste collection and discharge.

Finally, BiH has limited capacity to treat the hazardous wastes that are typically generated by a railroad (e.g., asbestos residues from ballast cleaning and sleeper removal). And health and safety requirements, for instance wearing of protective gear by track maintenance gangs, are typically often violated.

In EvD’s opinion the assessment/audit was under-budgeted (€30,000) and primarily depending upon observations and (very limited and often outdated) data as provided by the company, rather than through an independent assessment and collection of new data - either directly by the consultants, or upon request by the clients. In the opinion of EvD, at a minimum, it should have
been possible to make best estimates of the volume of waste generated and to address appropriate disposal options. Rather than starting with some reasonable estimates, such actions are transferred to the company via the EAP, to be undertaken in the first year of implementation. Unfortunately, the subsequent Annual Environmental Reports (AER’s) are also lacking such data. This suggests that the Bank should have considered providing additional TC to assist the railroads with implementation (Section 7).

Were the TORs appropriate for the tasks? - Yes and No. The TCs were sufficient to meet the Bank’s needs for due diligence (EAA) and preparation of an EAP. However, in EvD’s opinion, the TC should have been designed with the primary objective of assisting the client, not the Bank, therefore implementation assistance should have also been provided.

The consultant’s outputs constitute barely a scoping exercise rather than a full audit, but met the terms of the TOR. The TOR and budget should have been much larger so as to provide institutional support to the clients. Therefore, the achievement of this objective is assessed as “Satisfactory”.

3.2 Assistance with restructuring

3.2.1 Relevance and objectives

In July 2005 a new railway law was adopted at state level which incorporated best practice in the European Union and to which the Bank substantially contributed by way of policy dialogue and through in kind assistance. It called for a gradual implementation of all relevant EU directives. Apart from addressing the physical shortcomings of BiH rail\textsuperscript{13}, the Bank’s second loan and this TC attached to it promote the implementation of this law. Together, the relevance of this TC is clearly confirmed as further illustrated in the following.

Two key features deserve highlighting in this context: the requirement for establishing a railway regulatory board, and the requirement of the separating of transport operations from infrastructure management. Commensurately, the TC was regarded instrumental in the development of the procedures and documentation stipulated under the 2005 law, which were in turn underpinned by key terms and conditions under the second loan (a relevant extract is contained in Box 1 as follows).

\textsuperscript{13} The physical needs addressed include: a programme of renewal of track and structures on key sections of the north-south corridor Vc and the east-west section, which runs parallel to Corridor X, together with rehabilitation of the station and route control signalling, telecommunications, power supplies and overhead line equipment; consulting services for the design of the telecommunication components, as well as procurement and supervision of all works under the project.
Box 1: Excerpts from key terms and conditions of the second loan

‘Conditions precedent to effectiveness’, including:

- BHRPC to appoint consultants, on behalf of railway companies, to provide the assistance with restructuring; and
- Appointment of the Director of the Railway Regulatory Board

Key covenants, including:

- Agreement between the state, FBH and RS on the setting up of the infrastructure management company(ies) by 1 March 2007 (or 18 months after the effectiveness of the Law);
- Establishment of the infrastructure management company(ies) by 31 March 2008;
- Instructions for licences, safety certificates and permits by 31 August 2006 (or 12 months after the effectiveness of the Law);
- Application for licences and safety certificates to be submitted by train operators and infrastructure company(ies) to the railway regulatory board by 1 March 2007 (or 6 months after issuance of the instructions);
- Preparation of the restructuring plan for separation between infrastructure management(s) and train operators with special emphasis on labour restructuring by the infrastructure company(ies) by 30 June 2007, satisfactory to the Bank;
- Accounting separation of infrastructure, passenger and freight operations within both ZFBH and ZRS by 31 December 2005;
- The FBH and RS to introduce a transparent system of financial compensation to the railway operators in respect of the public service obligations by 31 December 2006;
- ZFBH and ZRS to achieve a labour productivity ratio of at least 250,000 and 100,000 by the end of 2006 and 300,000 and 150,000 by end-2008;
- Annual submission to the Bank of the three-year rolling business plans of ZBH and ZRS, including, starting on 31 December 2007, the new three-year infrastructure business plans; and
- Preparation of model contracts between the railway operators and the infrastructure management company(ies) and between owners of railway infrastructure and infrastructure management company(ies) no later than 31 March 2008.

3.2.2 Achievements

A final consultant report by KPMG Advisory S.p.A. providing Assistance with the Restructuring of the Railways of the Federation of Bosnia and Herzegovina and Railway of Republic of Srpska has been delivered on schedule and budget (December 2007). Templates for all the documents required by the Railway law were prepared. The final report addresses comprehensively the focal areas as set out in the terms of reference (TOR) and is of good quality.

The PCR in Appendix 4 rates the overall assignment as “Successful” but noted that “Even though the TC provided all the required outputs, the lack of political will for adoption of the same is preventing the full implementation of the same”, a statement with which this evaluation fully concurs, although not with the output-focused rating.

The PCR rightly distinguishes between the dimensions output, outcome, and impact. Indeed, the output can be rated “Successful” as noted above. However, the outcome, i.e. the
materialising of the separation of operations from infrastructure and the establishing of Public Railway Infrastructure Manager(s) (which is in turn based on documentation that was to be facilitated under the TC and that is conditioned on the effective involvement of an appropriate railway regulatory board) has not been achieved to date. It deserves noting in this context that the related investment project was declared effective in April 2008 only after the office of the Chief Economist (OCE) waived the affirmative transition covenants until 31 March 2009 (included in Box1). At the time of this evaluation (July 2009) these covenants were yet to be complied with. The latest Bank monitoring report (MR) frustratingly assumes that one more year of delay is likely which this evaluation considers to be an optimistic expectation.

For further qualification, it is this evaluation’s belief that the consultant went as far as it could. But, to put it in colloquial terms: ‘it takes two to tango’ – and as the PCR rightly notes, there was and still is a lack of political willingness. Some observations underpinning this assessment are provided in the following.

- **Railway Regulatory Board.** A railway regulatory board has been created within the state-level Ministry of Communications and Transport (MOCT) and as such is formally independent from entity-level railway operations and infrastructure management. Its factual independence, however, is questionable since, as is applicable for the state-level MOCT, the staffing of state-level entities and their effective purviews are marred by entity politics rather than guided by their professional competence. Underlying this is the fear, at the entity level, of a loss of control and influence over spheres of interest through the delegation of powers and authorities to the state-level (notably: permits, safety certificates, and licences). It is unclear whether such defended ‘proprietary’ interests are only those of certain powerful groups within the political and railway establishment or whether they are broad-based and supported by ethnic communities at large. At the helm of decision-making bodies are often politicians with limited railway know-how or railway veterans with entrenched positions; together there is an obvious reluctance to embrace reforms, a phalanx which is difficult to break.

A particular point for illustration is the following: The regulatory board’s authority includes the granting of permit(s) for infrastructure manager(s). According to the loan covenant (Box 1 above) this was due by end-March 2008, but actually has still not yet occurred and, technically at least, thus constitutes a breach of loan covenants. In fact it is still controversially debated whether only one infrastructure manager in charge of the entire state railway system should be appointed or whether two such positions, for each entity separately, should be installed. The railway law is unclear in this respect and leaves it for interpretation and regulation at execution levels. The former scenario which has the economic rationale at its strength (an overall small railway system and synergy effects in mind) seems to be supported by the Federation (FBH), whilst the latter solution and building on the ethnic-political agenda appears to be favoured by the Republic (RS). The current entrenchments are clearly to the detriment of the overall good.

- **Separation of operations from infrastructure.** The separation of operations from infrastructure takes centre-stage in the railway law and is an important building block for the Bank’s railway investment operations in BiH, with the previously mentioned infrastructure manager position being one of the structural components. Not only is introducing

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14 Annex 9 (Public Corporations) of the Dayton Agreement prescribes in its Article II, Section 3 that the ‘Transportation Corporation’, in this case MOCT, “shall have appropriate facilities and choose a professionally competent Board of Directors, Officers and Staff, generally representative of the ethnic groups comprising Bosnia and Herzegovina, to carry out its functions”.

15 Section 5.1: “waver”.

16 It is therefore that reference in singular and plural is made: ‘Infrastructure Manager(s)’. 
fundamental sector reform, in an environment as characterised above, a challenging task, but in the past railways almost anywhere in the world have comprised of organisations heavily enshrined in their respective traditions and in some environments have assumed virtually ‘state-in-a-state’ powers. In FY (as elsewhere at the time) railways formed an integral part of the state, were entirely central-budget funded and were mainly organised to execute plans. A separation of organisation and infrastructure was not required, in fact it might have been regarded as a hindrance in fulfilling mostly politically instigated plan targets. The management of infrastructure facilities along commercial and economic principles, and operations that are oriented towards client needs are novel concepts for which BiH railways is now meant to strive.

This transformation is in its earliest stages. The bespoke new railway law is an important step in this direction, but the implementation of the law has yet to emerge at a fuller scale and more specifically in a synchronised manner between the two entity railways and their apex. Examples of potential problems include the following:

- **Privatisation degree.** ZFBH is majority owned by the Federation of Bosnia and Herzegovina (FBH), with 49% of the capital related to operations privatised through vouchers. ZRS is majority owned (65%) by Republika Srpska (RS), with 10% of the capital distributed to the pension fund, 5% to the restitution fund and the balance of 20% privatised via vouchers. This structural divergence in asset and operation ownerships along the entity ‘demarcation’ line does not easily lend itself to a harmonised and consolidated appropriation of central budget allocations, i.e. the differences in the beneficiary structure give rise to envy.

- **Maintenance equipment.** Both entity railways entertain separate maintenance equipment pools. These are relatively capital-intensive and often have capacity potentials that reach beyond the needs of the individual entity railway. While it is not excluded that the one helps out the other (by charging for services at unclear cost bases), but service availability does not necessarily follow commercially-oriented priority needs; in simpler words, politics play a determining role above or alongside technical needs.

- **Codes, standards and norms.** Partly determined by the afore-mentioned, maintenance practices which differ between both railways, although overall basic standards are the same and originate from FY times and which are in accordance to UIC standards.

- **Business concepts.** Whilst the ZRS (east-west along Corridor X and connecting to Serbia) is mainly focussing on passenger transportation and could secure a comparatively comfortable volume of (albeit outdated) passenger wagons, the ZFBH business orientation (north-south along Corridor V) is mainly geared to accommodate cargo transport; most of its passenger wagons were destroyed or misappropriated during the war.

As emphasised above, it is the TC outcome, underpinned by emerging impacts that should form the basis for the rating. The expected impact, namely sector reforms towards a well-functioning railway system modelled along European standards and observing related good practice standards (GPS) (as

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17 To explain: After the disintegration of the Former Yugoslavian Republic (FYR) railways in the newly formed entities had to adjust their operational workflows and maintenance strategies since they couldn’t any further avail of the necessary infrastructure, as before, that would have allowed them to carry out the works under FYR standards. Examples for this lacking infrastructure include: signalling facilities at railway stations, intra-railway communication systems, sufficient quality track infrastructure. The lack of machinery and equipment as mentioned before (either destroyed or left where it just happened to be after the war) and also the lack of rolling stock (wagons, locomotives), all this coupled with exacerbating budgetary constraints led gradually to entity-individual adaptations and thus a weakening of FYR uniform standards. It resulted in a mix-up of various standards and norms, partly also influenced by requirements of suppliers of new equipment. Finally, the different business concepts referred to in the following bullet further contributed towards diverting developments in standards and norms.

18 UIC or International Union of Railways (French: Union Internationale des Chemins de fer) is an international rail transport industry body.
envisioned in the Bank’s second investment) is still far away. On the other hand, valuable material has been made available under the TC and is partly used (e.g. planning tools). Hence, this TC is rated “Partly Successful”, at best.

4. OVERALL ASSESSMENT

The combination of the two Technical Cooperation (TC) operations “Environmental Analysis & Audit” and “Assistance with Restructuring” overall is rated “Partly Successful” (Appendix 2).

Funding- and scope-wise the environmental assessment/audit was a minor assignment (€30,000). In EvD’s opinion was under-budgeted and primarily depending upon observations rather than through an independent assessment and collection of new data. Its overall performance is regarded appropriately rated as “Partly Successful”. Comparatively much more important (funding and scope-wise) - also from a Transition Impact (TI) perspective – was the restructuring assistance (€300,000). Whilst the consultants’ output is of good quality and in compliance with the respective TOR – themselves relevant and comprehensive – the outcome was disappointing: the consultants’ recommendations have not (yet) been acted upon and most likely won’t in the next foreseeable future. That said, the material developed under the TC is valuable and some elements are actually being used. The related investment operation is saved from breaching the loan agreement by the Bank’s (i.e. OCE’s) waving of the affirmative (TI) covenants. The above overall assessment is mainly determined by this lack of action, in turn determined by a political unwillingness or inability by the two entities to live up to the political reality set by the Dayton Peace Accord signed in November 1995.

Transition Impact (TI) only occurred on the (‘first step’) entity level and only relates to the TI dimension ‘Know-How Transfer’ This TI is rated “Good”. There exist considerable concerns regarding the political willingness and ability at both levels – entity and state – to effectively implement the TC recommendations, all of which in support of the newly approved railway law and, ultimately, of the sector reforms envisaged. The TCs’ relevance, compliance with the Bank’s relevant Country Strategy and Sector Policy are confirmed and their Additionality is assessed as “Verified in all respects”. Environmental impact is regarded “N/A”.

Finally, Bank handling is rated “Good”. TC preparation and monitoring were executed diligently and, notably, the operation leader’s interaction with a difficult client base is commendable.

5. TRANSITION IMPACT AND ADDITIONALLY

5.1 Overall transition impact

The transition impact (TI) potential of the two TCs was rather limited and only pertains to the “Company Level”. The TCs themselves are rather impact neutral and therefore an overall rating of “N/A” is assigned (Appendix 3).

5.1.1 Company level

19 In this context: The associated investment operation has not yet been assessed by the Bank’s Office of the Chief Economist (OCE) under the Transition Impact Monitoring System (TIMS). However, OCE staff visited BiH in March 2008 for policy discussions of the Bank’s transport projects in BiH (Back –to-office report – BTOR dated 14 March 2008). As concerns railways, OCE – same as this evaluation – observed “significant obstacles with regard to the separation of infrastructure and third party access to railway tracks”. EvD also shares OCE’s observations regarding the establishment of Infrastructure Manager(s); OCE indicated that it would wave the related covenant. Whilst this relieves the Bank from taking action, for the time being, it may not send the right message to the Borrower that this issue needs to be solved.
The TI at this level mainly pertains to the cooperation between the respective consultants and the various counterpart stakeholders, i.e. BHRPC, ZFBH, ZRS, MOCT, the entity Ministries of Transportation and Communication, other relevant local agencies, and with the Bank.

The cooperation under both TCs was smooth and professional. A rating of “Good” is assigned.

5.1.2 Industry and economy as a whole

Obviously, the TCs overall were to foster the sector reform course pursued by the associated investment operation, but this TI-relationship is more of an inferred nature.

It is regarded appropriate to allocate a rating of “N/A”.

5.2 Environmental impact

Section 3.1 describes the design, implementation and output of the environmental TC. Assessment of environmental performance is a function of the loan, not the TC and therefore is not rated here. However, the TC did create the potential for a significant environmental change (through the investment), some of which has occurred. The TC itself is impact neutral and therefore a rating of “N/A” should be assigned.

5.3 Country strategy and sector policies

As is assumed for the associated investment operation, the captioned TCs are consistent with the Bank’s country strategy for Bosnia and Herzegovina (BDS/BH/05-01(F)), the transport operations policy for 2004-2008 (BDS04-072) and the agreement establishing the Bank.

5.4 Additionality

As noted in the board document of the associated loan (BDS05-175, Section 3.2): “The Bank is presently the only organisation working with BiH railways with a transition mandate and has been instrumental in mobilising co-financing from EIB and international donors. Under IMF conditionalities, BiH is not allowed to borrow on commercial terms from financiers other than IFIs. While export credits are possible on a limited scale, they still require a sovereign guarantee and normally result in higher prices because of competition restrictions. Provision of financing on reasonable terms, matching the asset life, is not otherwise available; at present, no long term financing is available for projects of this nature from the local banks.”

In the light of the above a rating of “Verified in all respects” is assigned.

6. BANK HANDLING

The Terms of Reference (TOR) for the TC have been diligently prepared by the Bank, were complete and covered all relevant aspects and factors. The clients (ZHB, ZBH, ZRS, and BHRPC) were consulted during the TOR design stage and also have been fully involved during the TC preparation phase in general.

The procurement of consultancy services was in line with the Bank’s procurement policies and rules (PP&Rs). The consultant for the environmental TC (<€50,000) was directly selected whilst for the restructuring TC (>€50,000) a competitive selection process was undertaken. For this, in total
six expressions of interest (EOIs) were received, of which four were shortlisted. All the contenders were reputed consultant firms. Since tied funding had been obtained for both TCs, consultant selection overall was constraint to companies from the funding source’s nationality.

During the assignment no changes with regard to design of the TOR became necessary. And, the Bank’s transport department and the Bank’s resident office (RO) in Sarajevo performed well in terms of preparing and monitoring the assignment.

A rating of “Good” is assigned.

7. **KEY ISSUES AND LESSONS LEARNED**

7.1. **Realism of TC ambitions**

The captioned TC is tightly linked to the Regional Railway Project and thus to its loan covenant body. This deserves positive commending. However, if the underlying transition impact (TI) assumptions are overly-optimistic expectations, if not outright unrealistic, then it is impractical to charge a TC – itself endowed with a relative low leverage potential - with such over-ambitious targets. As said, the TC outputs were fine but most of them exiled to drawers, at least for the time being. If loan covenants can’t solve high stake political controversies, TCs can even less.

Lesson Learned:

**Fundamental sector reforms in circumstances marred by high stake ethno-political controversies are unlikely to be achievable through bilateral MDB investment efforts, let alone TCs.** In order to improve prospects for fundamental sector reforms in highly charged political environments the Bank must seek strategic alliances with other powerful co-investors – which it did in this case, but possibly not enough – and also widen its toolkit by a consolidated high-level policy dialogue – which it did not in this case. Commensurately, larger scale investment projects need to be disaggregated into phases and disbursement progress would need to be linked to clear milestone achievements. TCs can play a crucial role in such phased approach, but this is unlikely in an “under-powered” situation such as the one at stake.

7.2. **Assessment institutional capacity as part of the due diligence process**

The environmental analysis and audit pointed to a weak capacity of the railroads to address environmental management concerns. As a result the primary focus of the EAP was to support the development of an Environmental Management System (EMS), appropriately staffed and budgeted. This was a clear indication of the need for implementation support, which unfortunately was not provided.

Lesson Learned:

**Provide Implementation TC when Required:** In the case of sovereign projects, due diligence TC provides a useful measure of institutional capacity. When the client’s capacity to manage environmental systems is clearly weak, the Bank should follow-up with institutional capacity building implementation TC.
LIST OF CONTACTS

BOSNIA AND HERZEGOVINA MINISTRY OF COMMUNICATIONS AND TRANSPORT
Snežana Ivković  Advisor for International Collaboration,  
Department of Transport Infrastructure, Projects  
Preparation and Implementation
Izet Mehniagić  Assistant to the Minister
Borka Trkulja  Manager, BH Railways Regulatory Board

EUROPEAN UNION DELEGATION OF THE EUROPEAN COMMISSION TO BOSNIA HERZEGOVINA
Goran Filipović  Task Manager

PE RAILWAYS OF THE FEDERATION OF BOSNIA AND HERZEGOVINA LTD
Narcis Džumhur  President of the Management Board

RAILWAYS OF THE REPUBLIC OF SRPSKA
Milan Jovanović  Executive Director
Goran Korićić  Executive Director, Investments and Development
Dušan Spremo  Executive Director, Transportation
Rakić Stanislav

REPUBLIC OF SRPSKA MINISTRY OF TRANSPORT AND COMMUNICATIONS
Name  Position
Marinko Biljanović  Assistant to Minister for Railway, Air & Water  
Traffic
Ibrahim Medić  Advisor to the Minister
## Operation Performance Evaluation Review
### Environmental Analysis & Audit and Assistance with Restructuring
#### (Bosnia and Herzegovina)

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OVERALL TRANSITION IMPACT</strong> (Analysis in Appendix 3):</td>
<td>N/A</td>
</tr>
<tr>
<td>(Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative)</td>
<td></td>
</tr>
<tr>
<td><strong>ENVIRONMENTAL PERFORMANCE OF THE PROJECT AND SPONSOR:</strong></td>
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</tr>
<tr>
<td>(Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)</td>
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<tr>
<td><strong>EXTENT OF ENVIRONMENTAL CHANGE:</strong></td>
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</tr>
<tr>
<td>(Ratings: Outstanding, Substantial, Some, None/Negative)</td>
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</tr>
<tr>
<td><strong>ADDITIONALITY:</strong></td>
<td>Verified in all respects</td>
</tr>
<tr>
<td>(Ratings: Verified in all respects, Verified at large, Verified only in part, Not verified)</td>
<td></td>
</tr>
<tr>
<td><strong>PROJECT FINANCIAL PERFORMANCE:</strong></td>
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</tr>
<tr>
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</tr>
<tr>
<td><strong>COMPANY FINANCIAL PERFORMANCE:</strong></td>
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<tr>
<td>(Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)</td>
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</tr>
<tr>
<td><strong>FULFILMENT OF PROJECT OBJECTIVES:</strong></td>
<td>Marginal</td>
</tr>
<tr>
<td>(Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)</td>
<td></td>
</tr>
<tr>
<td><strong>BANK HANDLING:</strong></td>
<td>Good</td>
</tr>
<tr>
<td>(Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)</td>
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<tr>
<td><strong>BANK’s INVESTMENT PERFORMANCE:</strong></td>
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<tr>
<td>(Ratings: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory)</td>
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<tr>
<td><strong>OVERALL PERFORMANCE:</strong></td>
<td>Partly Successful</td>
</tr>
<tr>
<td>(Ratings: Highly Successful, Successful, Partly Successful, Unsuccessful)</td>
<td></td>
</tr>
</tbody>
</table>
# Appendix 3

## Operation Performance Evaluation Review

**Environmental Analysis & Audit and Assistance with Restructuring (Bosnia and Herzegovina)**

### Transition Impact Analysis

<table>
<thead>
<tr>
<th>TI checklist categories</th>
<th><strong>Steps of Rating Transition Impact</strong></th>
<th>Short-term verified impact</th>
<th>Longer-Term transition impact potential</th>
<th>Risk to potential TI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step I: Change by the Project at Corporate Level</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td>Private ownership</td>
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<td>N/A</td>
<td>N/A</td>
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<tr>
<td>5</td>
<td>Skill transfers</td>
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<td>Good</td>
<td>High</td>
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<td>6</td>
<td>Demonstration effects</td>
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<td>N/A</td>
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<td>7</td>
<td>New standards for business conduct</td>
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<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Step II: Transition Impact at the Level of the Industry and the Economy as a Whole</strong></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>1</td>
<td>Competition</td>
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<td>2</td>
<td>Market expansion</td>
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<td>N/A</td>
</tr>
<tr>
<td>3</td>
<td>Private ownership</td>
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<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>4</td>
<td>Frameworks for markets</td>
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<td>N/A</td>
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<tr>
<td>5</td>
<td>Skills transfers</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>6</td>
<td>Demonstration effects</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>7</td>
<td>New standards for business conduct</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Summary of Verified, Potential and Risk Ratings</strong></td>
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<td>N/A</td>
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<tr>
<td><strong>Overall Transition Impact Rating:</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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1. This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.
2. This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.
3. This range is: Low/Medium/High/Excessive.
4. This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.
**Standard Completion Report for CEI-2006-12-12**

### Commitment Details

**Commitment Number**: CEI-2006-12-12  
**Project Title**: BiH Regional Railway Project: Assistance with Restructuring  
**Country**: BOSNIA AND HERZEGOVINA  
**Sector**: Rail Transportation  
**Total Commitment Amount**: EUR 279,950  
**Total Amount Disbursed**: EUR 279,950  
**Date of Internal Approval**: 01-SEP-2005  
**Date of Funding Approval**: 15-DEC-2006  
**Related Investment(s) (EBRD Amount and DTM No.)**:  
- **Operation Name**: Bosnia and Herzegovina Regional Railway Project  
- **Operation Status**: Active  
- **Operation EUR**: 70,000,000  
- **DTM Number**: 35418  

**Consultant**: APRI SpA  
**Contract Start Date**: 01-FEB-2007  
**Original Contract End Date**: 31-JAN-2008  
**Final Contract Expiry Date**: 31-JAN-2008  
**Commitment Closure Date**: 12-JAN-2009  
**Has the consultant's final report been received?**: Yes

### Objectives & Tasks

**Main rationale for the proposed TC project**  
With the first project moving towards a successful completion (Railways Recovery Project DTM 10224) the Bank is now preparing a second railway project for Bosnia and Herzegovina (BiH) - Regional Railway Project (DTM 35418) - EUR 140 million (half of it co-financed by EIB) which passed SRM on 12 August 2005. In accordance with Dayton Agreement BiH continues to have a pretty weak State Government while the two Entities (Federation of Bosnia and Herzegovina and Republika Srpska) enjoy a large degree of economic autonomy. However the reform in the railways sector is progressing well. In 1998, a joint railway co-ordinating body, BiH Railways Public Corporation (BHRPC) was set up. There are two railway companies in Bosnia and Herzegovina (BiH), the Railway of the Federation of Bosnia and Herzegovina (ZFBH) and the Railway of Republika Srpska (ZRS). BHRPC is funded by the two railway companies. ZFBH and ZRS are vertically integrated railway companies covering both railway infrastructure and operations. In July 2005 a new Railway Law was adopted at State level. The law further advances the reform of the railway sector in line with best practice in the European Union. The law stipulates the setting up of a Railway Regulatory Board and the separation of transport operations from infrastructure management. The number as well as organisational and legal set up of future infrastructure manager(s) shall be determined through a separate agreement to be signed between the governments of the two Entities comprising the State. The law further provides that infrastructure manager(s) will be responsible for preparation of the Network Statement, maintenance and modernisation of infrastructure assets, granting access to operators, allocation of Train Paths and will participate in determination of access fees. The TC will support the BHRPC, ZFBH and ZRS to implement the new railway law and achieve the separation of infrastructure and operations.
Why is the TC needed and why use TC funds? Through the second railway operation in BiH the Bank aims to achieve transition impact via the reform of the sector: creation of the Railways Regulatory Board and separation of infrastructure and operations. The proposed TC is crucial for supporting BHRPC, ZFBH and ZRS to prepare for separation and develop the key tools for the new institutional set up: network statement, new contracts between operators and infrastructure manager(s), schedule of track access charges, etc. This is a very important reform which will ensure that BiH railway sector operates in line with best practices in the European Union.TC funds are needed because support of international consultants, with experience in railway restructuring, is critical for BHRPC, ZFBH and ZRS to implement the reform.

Main components/tasks the consultant was asked to undertake The objectives of this assignment are:

a) to prepare, in consultation with BHRPC, the relevant documents required by the Railways Law;
b) to assist ZRS and ZFBH to separate their operations from infrastructure and establish Public Railway Infrastructure Manager(s) in the most appropriate legal form.

Main tasks will be:

Task 1: Prepare a Network Statement for the rail network in BiH as defined in the Law.

Task 2: Prepare a model contract between the Railway Operator and Public Railway Infrastructure Manager(s).

Task 3: Prepare proposals for a schedule of track access charges.

Task 4: Prepare a model contract between Public Railway Infrastructure Manager(s) and the respective owner of the Public Railway Infrastructure.

Task 5: Identify the assets which should be managed by the Public Railway Infrastructure Manager(s) and the responsibilities which it should assume and prepare the opening Balance Sheets;

Task 6: Develop of a five-year infrastructure management plan for infrastructure owner(s)

Task 7: Identify activities where the Public Railway Infrastructure Manager(s) s and the train operating enterprises will be performing tasks for each other (provision of work trains by the freight operating unit) and help prepare an agreed set of transfer prices which can be applied on a fee-for-service basis

Task 8: Based on the output of Tasks 2, 3 and 4, identify the required staffing levels for the Public Railway Infrastructure Manager(s) and develop a manpower plan to achieve these.

Task 9: Prepare a five-year business plan for the Public Railway Infrastructure Manager(s) consolidating the outputs from the above tasks.

How well were tasks completed by the consultant? Good

Comment on the relevance of the objectives and how the tasks covered in the ToR contributed to achieving the objectives The objectives where derived from the provisions of the Bosnia and Herzegovna Railway Law, which calls for gradual implementation of all relevant EU directives. The consultant has prepared a set of nine important documents which should facilitate this process. However, it remains uncertain to what extent this process will enjoy support from local political structures and from the railway companies. The full implementation of the directives also means open access to third parties. The railway companies now openly express fears that they are not yet ready for serious competition.

Were there any changes to objectives, tasks, timing of implementation, or budget after TC Com approval? Yes

Describe and explain any changes There was an increase in budget of EUR 20,000 to cover the cost of translation of large number of deliverables.
Describe identified risks (internal and external) and mitigating measures taken

The main risks to this TC are related to political and macroeconomic stability, willingness to reform of the Governments at all levels in BiH and ability of the BHRPC, ZFBH and ZRS to implement the outcomes of the assistance with restructuring. The local political situation is stable and the continued presence of the Office of the High Representative reinforces the commitment of the international community to help BiH progress in its transition without major crises. From a macroeconomic point of view the country is stable and has been commended by IMF for maintaining stability. The currency is linked to the EURO under a currency board regime. Having said that the country is still significantly lagging behind on industrial restructuring and privatisation. The two Entities are now cooperating better than in the past, although nationalists on both sides, from all three ethnical groups, sometimes oppose those actions designed to reinforce the state and create one single economic space. In the railways sector all three Governments are committed to implement the reforms required by the Bank to accelerate the transition process. The authorities are fully on-board with the proposed scope of the TC and they are committed to implement the strategy, as illustrated by the fact that the railways law was passed in June 2005.

How do you rate the Bank's performance in terms of preparation and monitoring of the assignment?

Good

Justify this rating. What would you change with regard to design and monitoring if you were to handle a similar assignment in the future?

The Team worked together with the Clients on ToRs, advised during consultant selection process and provided comments on draft reports.

Level of the local client's commitment during design and implementation

Good

Justify your rating of the client's commitment. Comment on the client's involvement during TOR design, consultant selection and implementation

The clients (two railways companies and a joint railway corporation) actively participated in preparation of the TORs, which are to large extent based on provisions of the new BH Railways Law.

Quality and timeliness of consultant's deliveries

Good

Consultant's organisation and execution of task

Good

Consultant's overall compliance with the Terms of Reference

Good

Would you recommend the consultant for other, similar assignments?

Yes

How do you rate the 'value for consultant money' of this assignment?

Good

Overall rating of the consultant's performance

Good

Justify this overall rating

The consultant demonstrated commitment and eagerness to move forward with execution of tasks. The consultants also managed to maintain good relationship with the beneficiaries (the two railway companies operating in Bosnia and Herzegovina).

Assessment of Outputs

What will be the impact of the Bank Investment?

The Banks project, with a total cost of EUR 140 million, will be co-financed by the EIB. The investment components will be:

(a) renewal of track and structures on sections Kostajnica to Josavka, Konjic to Mostar and Mostar to Capljina (EUR 105.13 million);
(b) rehabilitation of the station and route control signalling (EUR 20.54 million);
(c) basic telecommunications (EUR 3.44 million);
(d) repair of power supplies and overhead line equipment (EUR 6.36 million);
(e) design of telecommunication components, procurement and supervision of all works under the project (EUR 4.52 million).

The TC for Assistance for Restructuring will assist BHRPC, ZRS and ZFBH to prepare the relevant documentation and implement the provisions of the Railway Law to achieve the separation of infrastructure and operations.

Has this assignment identified the need for additional TC assignments or the need for any other type of follow up by the Bank?

No.

How was donor visibility ensured for this assignment?

Representatives of Italian embassy were invited and present at the signing ceremony. Gratitude was expressed to both the Italian Government and the CEI. The signing had a large media coverage (daily newspapers and TV).
Standard Completion Report for CEI-2006-12-12

Success Indicators

Implementation of the railways law with creation of the Railways Regulatory Board and separation of infrastructure and operations by 31 December 2008, based on the recommendations and model documents prepared by the TC consultants.

Expected Transition Impact

The Bank's project will aim to achieve transition impact through:

- agreement between the State, FBH and RS on the setting up of the infrastructure management company(ies);
- preparation of the restructuring plan for separation between infrastructure manager(s) and train operators with special emphasis on labour restructuring in infrastructure company(ies);
- the introduction a transparent system of financial compensation to the railway operators in respect of the Public Service Obligations by FBH and RS;
- appointment of the Director of the Railway Regulatory Board;
- accounting separation of infrastructure, passenger and freight operations within both ZFBH and ZRS;
- improvement of Labour Productivity Ratio of both ZFBH and ZRS; and
- annual submission to the Bank of the mid-term rolling business plans of ZBH and ZRS.

Comment

The TC for Assistance for Restructuring will assist BHRPC, ZRS and ZFBH to prepare the relevant documentation and implement the provisions of the Railway Law to achieve the separation of infrastructure and operations.

How do you categorise the assignment's overall outcome?

Successful

Justify this overall rating

No major problems encountered during implementation except the one related to translation of the deliverables.

Lessons Learned

What were the lessons learned for assignment preparation and design?

In TC that will have outputs in form of legal documents that need to be adopted by the government, significant budgeting for translation services needs to be planned for.

What were the lessons learned for assignment implementation and monitoring?

Even though the TC provided all the required outputs, the lack of political will for adoption of the same is preventing the full implementation of the same.

Assessment of Outputs
<table>
<thead>
<tr>
<th>ID</th>
<th>Section</th>
<th>Project Description</th>
<th>Financing by:</th>
<th>Amount Realized in 2007</th>
<th>Contract Start</th>
<th>Contract End</th>
<th>Fund Approved in</th>
</tr>
</thead>
<tbody>
<tr>
<td>444</td>
<td>Tuzla-Zvornik</td>
<td>Rehabilitation of the tunnel Krčjevci</td>
<td>ZRS</td>
<td>KM841.107,40</td>
<td>100%</td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>452</td>
<td>BH</td>
<td>Installation of new information system</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>456</td>
<td>Konjic-Mostar</td>
<td>Rehabilitation of 3.24 km Ledinec tunnel</td>
<td>Japan</td>
<td>EUR1.545.339</td>
<td>100%</td>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>433</td>
<td>Bradina-Konjic (Corridor 5c)</td>
<td>Overhaul of the 26 km single-track</td>
<td>EIB</td>
<td>EUR18.217.000</td>
<td>100%</td>
<td></td>
<td>2004, 2006</td>
</tr>
<tr>
<td>437</td>
<td>Samac-Mojić-Doboj-Capljina, Zvornik</td>
<td>Reconstruction of four border station (Samac, Capljina, Doboj &amp; Zvornik), two main station buildings (Doboj &amp; Mojić)</td>
<td>EIB</td>
<td>EUR2.239.053</td>
<td>100%</td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>439</td>
<td>Blažuj &amp; Zenica</td>
<td>Workshop buildings reconstruction at Blažuj and Zenica</td>
<td>EIB</td>
<td>EUR937.500</td>
<td>100%</td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>440</td>
<td>Čača, Doboj, Zvornik, Prisjoja, Zenica, Doboj-Dobrljin</td>
<td>Repair &amp; installation of signaling at 11 level crossing on the Sarajevo – Zenica section; station signaling at Stanari &amp; Prisjoje station; telecommunication at Zenica &amp; on the Doboj-Dobrljin section.</td>
<td>EIB</td>
<td>EUR4.574.774</td>
<td>100%</td>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>441</td>
<td>BH</td>
<td>The balance (EUR2.227.000) concerns unallocated contingencies &amp; design &amp; supervision cost.</td>
<td>EIB</td>
<td>EUR2.227.000</td>
<td>100%</td>
<td></td>
<td>2002</td>
</tr>
<tr>
<td>442</td>
<td>15 stations on Corridor Vc &amp; in B Poljana station on parallel to Corridor X</td>
<td>Modernisation of the signalling system in 15 stations on Corridor Vc (Močiha, Samac, Vranjak, Koprina, Osječani, Doboj, Ševarlije, Railovac, Podlugovi, Alipalim Most, Blažuj, Mostar, Brežnica, Raška Gora &amp; Bacevići) &amp; in B.Poljana station on parallel to Corridor Vc, &amp; installation of a new RTC system (traction power supply remote control system)</td>
<td>EBRD</td>
<td>EUR10.106.995</td>
<td>78%</td>
<td>2.084.250</td>
<td>2004</td>
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<tr>
<td>191</td>
<td>Banja Luka – Doboj</td>
<td>Signal - safety plants – service post Stanari</td>
<td>EIB</td>
<td>EUR690.500</td>
<td>100%</td>
<td></td>
<td>2004</td>
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<tr>
<td>193</td>
<td>Banja Luka – Doboj</td>
<td>Signal - safety plants – service post Prisjoje</td>
<td>EIB</td>
<td>EUR769.000</td>
<td>100%</td>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>61</td>
<td>Sarajevo – Zenica</td>
<td>Repair of signaling facilities in 4 stations &amp; 10 road level crossings (1st phase)</td>
<td>EIB</td>
<td>EUR750.000</td>
<td>100%</td>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>214</td>
<td>Volovlje – Doboj</td>
<td>Repair of line-side signaling telecom. Cable (1st phase)</td>
<td>EIB</td>
<td>EUR158.375</td>
<td>0%</td>
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<td>1997</td>
</tr>
<tr>
<td>87</td>
<td>Zenica – Doboj</td>
<td>Repair of the track cable, track &amp; local phone lines</td>
<td>EIB</td>
<td>EUR100.000</td>
<td>100%</td>
<td></td>
<td>1997</td>
</tr>
<tr>
<td>266</td>
<td>Zenica – Doboj</td>
<td>Reconstruction of the workshop for infrastructure maintenance at freight station at Zenica (1st phase)</td>
<td>EIB</td>
<td>EUR312.500</td>
<td>100%</td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>471</td>
<td>Corridor Vc and Corridor parallel to Corridor X</td>
<td>Reconstruction of railway infrastructure on before mention Corridors in Republic of Srpska</td>
<td>EIB/EBRD</td>
<td>EUR242.000.000/ EUR28.000.000</td>
<td>0%</td>
<td></td>
<td>2007/2008 -- 2005</td>
</tr>
<tr>
<td>472</td>
<td>Corridor Vc and Corridor parallel to Corridor X</td>
<td>Reconstruction of railway infrastructure in FBH (Konjic-Mostar-Capljina)</td>
<td>EIB/EBRD</td>
<td>EUR242.000.000/ EUR28.000.000</td>
<td>0%</td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>473</td>
<td>BH</td>
<td>Purchase of infrastructure maintenance machinery (motor trolley, tank machines etc)</td>
<td>EBRD</td>
<td>EUR900.000</td>
<td>100%</td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>474</td>
<td>Sarajevo – Bradina, Samac - Doboj</td>
<td>Provision of Design for Reconstruction of Railways Sections on the Pan European Corridor Vc in BiH</td>
<td>EIB</td>
<td>EUR989.000</td>
<td>ongoing</td>
<td></td>
<td>03/2007</td>
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<tr>
<td>475</td>
<td>Sarajevo-Capljina section km 4-859 - km 36-900</td>
<td>Rehabilitation of railway line with new track wooden sleeper</td>
<td>EUFOR-ZFBiH</td>
<td>KM208.040</td>
<td>100%</td>
<td>08/2005</td>
<td>11/2005</td>
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<tr>
<td>476</td>
<td>Sarajevo-Capljina section km 134-630 - km 158-780</td>
<td>Rehabilitation of railway line with new track wooden sleeper</td>
<td>EUFOR-ZFBiH</td>
<td>KM391.709,6</td>
<td>100%</td>
<td>08/2005</td>
<td>01/2006</td>
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<tr>
<td>477</td>
<td>Sarajevo-Samac section km 146-500 - km 176-600</td>
<td>Rehabilitation of railway line with new track wooden sleeper</td>
<td>EUFOR-ZFBiH</td>
<td>KM518.589,6</td>
<td>100%</td>
<td>08/2005</td>
<td>10/2005</td>
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<tr>
<td>478</td>
<td>Sarajevo-Samac section km 171-000 - km 136-500</td>
<td>Rehabilitation of railway line with new track wooden sleeper</td>
<td>EUFOR-ZFBiH</td>
<td>KM373.877,6</td>
<td>100%</td>
<td>08/2005</td>
<td>10/2005</td>
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<tr>
<td>479</td>
<td>B Poljana – Brcko section km 77-660-km 80+410</td>
<td>Rehabilitation of railway line with new track wooden sleeper</td>
<td>EUFOR-ZFBiH</td>
<td>KM483.352</td>
<td>100%</td>
<td>08/2005</td>
<td>01/2006</td>
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<tr>
<td>480</td>
<td>Sarajevo-Samac stations: Kakanj, Podlugovi and Semizovac</td>
<td>Rehabilitation of railway line with new switch oak wooden sleepers</td>
<td>EUFOR-ZFBiH</td>
<td>KM51.002,4</td>
<td>100%</td>
<td>08/2005</td>
<td>11/2005</td>
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<tr>
<td>481</td>
<td>Sections: Samac-Doboj, Doboj-Maglaj, Doboj-Prisjoje, Petrovo Novo-Doboj</td>
<td>Procurement and installation of new rails with reassembling old rails</td>
<td>EUFOR-ZRS</td>
<td>KM14.189,47</td>
<td>100%</td>
<td>08/2005</td>
<td>02/2006</td>
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</table>

June, 2008

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<table>
<thead>
<tr>
<th>ID</th>
<th>Section</th>
<th>Project Description</th>
<th>Financing by</th>
<th>Amount</th>
<th>Progress of Contract %</th>
<th>Amount realized in 2006</th>
<th>Contract Start</th>
<th>Contract End</th>
<th>Fund approved in:</th>
</tr>
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<tbody>
<tr>
<td>482</td>
<td>Station Doboj</td>
<td>Replacement of points (switches) at the railway station Doboj</td>
<td>EUFOR/ŽRS</td>
<td>KM550.760</td>
<td>100%</td>
<td></td>
<td>08/2005</td>
<td>03/2006</td>
<td>2005</td>
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<tr>
<td>483</td>
<td>Station Osječani, section Doboj-Šamac</td>
<td>Rehabilitation of existing signalling interlocking system in station Osječani</td>
<td>EUFOR/ŽRS</td>
<td>KM498.616,25/42,770</td>
<td>100%</td>
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<td>02/2007</td>
<td>06/2007</td>
<td>2006</td>
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<tr>
<td>484</td>
<td>Station Vranjak, section Doboj-Šamac</td>
<td>Rehabilitation of existing signalling interlocking system in station Vranjak</td>
<td>EUFOR/ŽRS</td>
<td>KM483.140/50,622</td>
<td>100%</td>
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<td>02/2007</td>
<td>06/2007</td>
<td>2006</td>
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<tr>
<td>485</td>
<td>Line Iričko-Banovići</td>
<td>Rehabilitation of landslide in km 106+650</td>
<td>EUFOR/ŽFBiH</td>
<td>KM61.252,67</td>
<td>100%</td>
<td></td>
<td>07/2007</td>
<td>09/2007</td>
<td>2006</td>
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<tr>
<td>486</td>
<td>Line Sarajevo-Capljina</td>
<td>Rehabilitation of railway line Sarajevo-Capljina with new S49 type rails, section km78+510-km 155+308</td>
<td>EUFOR/ŽFBiH</td>
<td>KM303.001,49</td>
<td>100%</td>
<td></td>
<td>07/2007</td>
<td>10/2007</td>
<td>2006</td>
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<tr>
<td>487</td>
<td>Line Sarajevo-Capljina</td>
<td>Rehabilitation of railway line Sarajevo-Capljina with new S49 type rails in tunnel Osenik, section km27+561-km 29+451</td>
<td>EUFOR/ŽFBiH</td>
<td>KM179.740,01</td>
<td>100%</td>
<td></td>
<td>07/2007</td>
<td>09/2007</td>
<td>2006</td>
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<tr>
<td>488</td>
<td>Line Sarajevo-Capljina</td>
<td>Rehabilitation of railway line Sarajevo-Capljina with new S49 type rails, section km18+7000-km 36+500</td>
<td>EUFOR/ŽFBiH</td>
<td>KM303.826,67</td>
<td>100%</td>
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<td>07/2007</td>
<td>09/2007</td>
<td>2006</td>
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<tr>
<td>489</td>
<td>Line Sarajevo-Samac</td>
<td>Rehabilitation of new railway line Sarajevo Samac with new switch metallic parts at stations Maglaj, Zavidovici, Zenica, section km 107+100, km 179+664</td>
<td>EUFOR/ŽFBiH</td>
<td>KM179.219,61</td>
<td>100%</td>
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<td>05/2007</td>
<td>09/2007</td>
<td>2006</td>
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<tr>
<td>490</td>
<td>Line Sarajevo-Samac</td>
<td>Rehabilitation of new railway line Sarajevo Samac with new bridge sleepers, section km 114+240, km 144+270, km 172+930</td>
<td>EUFOR/ŽFBiH</td>
<td>KM102.835,29</td>
<td>100%</td>
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<td>09/2007</td>
<td>2006</td>
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<tr>
<td>491</td>
<td>Railway section Sarajevo Terema-Alipasin Most</td>
<td>Rehabilitation of railway line with new switch metallic parts</td>
<td>EUFOR/ŽFBiH</td>
<td>KM152.759,31</td>
<td>100%</td>
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<td>09/2007</td>
<td>2006</td>
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<td>492</td>
<td>Railway section Sarajevo Terema-Alipasin Most</td>
<td>Rehabilitation of railway line with new track sleepers and crossing sleepers</td>
<td>EUFOR/ŽFBiH</td>
<td>KM124.828,56</td>
<td>100%</td>
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<td>05/2007</td>
<td>09/2007</td>
<td>2006</td>
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<tr>
<td>493</td>
<td>REBIS Core Network</td>
<td>Design for Reconstruction of Railway Structures, Electrical Traction and Telecommunication Facilities on REBIS Railway Core Network in BH</td>
<td>EC</td>
<td>EUR1.455.000</td>
<td>100%</td>
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<td>04/2008</td>
<td>07/2009</td>
<td>2005</td>
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<td>494</td>
<td>MTCBH</td>
<td>Twinning Assistance to Ministry of Communications and Transport of BH in Implementation of BH Law on Railway</td>
<td>EC</td>
<td>EUR1.000.000</td>
<td>100%</td>
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<td>06/2006</td>
<td>04/2008</td>
<td>2004</td>
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