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**APPROACH PAPER**

# **Russian railway sector evaluation**

November 2014

**EBRD EVALUATION DEPARTMENT**



**European Bank**  
for Reconstruction and Development

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The Evaluation Department (EvD) at the EBRD evaluates the performance of the Bank's completed projects and programmes relative to objectives in order to perform two critical functions: reinforcing institutional accountability for the achievement of results; and, providing objective analysis and relevant findings to inform operational choices and to improve performance over time. EvD reports directly to the Board of Directors, and is independent from the Bank's Management. Whilst EvD considers Management's views in preparing its evaluations, it makes the final decisions about the content of its reports.

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# 1. Introduction

## 1.1 Name and nature of the evaluation

In 2013, the EBRD Executive Board approved the inclusion of the Russian Railway Sector Evaluation in the Evaluation Department's (EvD) work programme. The evaluation is designed to address both the accountability and learning dimensions of evaluation. The scope of the study is to assess the accomplishments and shortcomings of the actual operational performance of the totality of the EBRD's operations in Russian railway sector and how the combination of EBRD-financed projects, technical cooperation (TC) grants and policy dialogue promoted transition by contributing to sector reform. Broadly, the evaluation will: (i) assess the relevance, results achieved and efficiency of the EBRD's operations in the Russian railway sector; (ii) assess the specific transition and sector-reform objectives present in the full range of EBRD operations; (iii) examine selected projects in more detail that are representative "types" in terms of the ownership/structural nature of the borrower (public and private sector projects) to assess how each embedded reform/transition content and results achieved; (iv) assess the alignment of Russian railway operations with the EBRD's strategic objectives as set out in corporate, country, sector and project documents; and (v) identify any significant ways in which strategy and/or operational choices and designs have changed and the reasons for such changes, including through the adoption of the integrated approach. The evaluation is expected to derive findings and lessons to contribute to more effective future operations in the Russian railway sector and the EBRD's railway operations more broadly and to provide inputs for the formulation of the next Russian country strategy.

## 1.2 Rationale for including the evaluation in EvD's work programme

The Russian railway is one of the largest railways in the world in terms of network length and volume of freight and passengers carried and is by far the largest railway that the EBRD has supported. A comprehensive, wide-ranging reform programme has been underway for two decades (see Annex 1). As is reflected by the improvement in the transition rating from the 2+ in 1998 to 2003 to 4- in 2013, the Russian railway reform programme has been judged by the EBRD to have been successful – the sector has made significant progress in its transition from a state-owned monopoly to a sector in which there is increasing competition and a growing role for the private sector in owning and operating freight wagons. There is, however, an unfinished railway reform agenda.

The Russian Railway Sector Evaluation was included in the Evaluation department's work programme because of the size of the Russian railway portfolio and the EBRD's substantial, long-standing involvement in the sector, stretching over two decades. The EBRD is the leading international financial institution in the Russian railway sector. Between 1996 and 2013, the Board approved 23 Russian railway projects that involved €1.931 billion in EBRD funding. Among these transactions was one approved as one of the EBRD's first integrated approaches, the 2009 Rossiyskie Zeleznnye Dorogi (RZD, the Russian Railway) project. Only two projects were approved in the 1990s, which is consistent with the fact that the government did not begin to implement sector reforms in earnest until 2001. A few projects were approved in the early 2000s. As the reforms took effect, the EBRD's financial support for the railway sector accelerated beginning in 2007. The EBRD has been involved in some landmark transactions in the Russian railway sector<sup>1</sup>. The EBRD's financial support was about equally divided between RZD and its subsidiaries and private railway companies. Virtually all of the EBRD's support for private companies was

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<sup>1</sup> Examples include the Gobaltrans' IPO; TransContainer's IPO; support for Freight One, which was eventually fully privatised; RZD's 2010 and 2011 international bond issues and Brunswick Rail's 2012 Eurobond issue.

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for the acquisition of wagons by freight operating companies, which reflects the pace of reforms in the railway sector.

The EBRD's self-evaluation and independent evaluation systems and the Transition Impact Monitoring System (TIMS) assess the achievement of objectives, or lack thereof, on a project-by-project basis. Transition Reports and Transition Impact Retrospectives assess the cumulative impact of EBRD investments in transport (and every other sector) in each country. However, there is a gap in the EBRD's learning because there has not been an independent evaluation of the overall performance of the railway portfolio and the cumulative impact of the EBRD's activities in the Russian railway sector on promoting transition at the strategic or sector level. The evaluation will fill this knowledge gap. While the Board of Governors and Executive Directors are the main audience for the study, it will have a number of other audiences:

- Senior EBRD Management to promote accountability and learning at the sector level and to help identify the nature of the EBRD's future engagement in the Russian railway sector.
- The transport team that is responsible for identifying, processing and supervising projects and TCs in the Russian railway sector.
- EBRD staff engaged in policy dialogue in the Russian railway sector.
- The Russian country team that is responsible for setting out the EBRD's strategic objectives in Russia, developing the next Russian country strategy and identifying the sectors in which the EBRD will engage.

### **1.3 Document and literature review and preparation of the approach paper**

As part of approach paper preparation, a comprehensive literature review was undertaken of EBRD documents (including Board documents for all Russian railway projects; TIMS reports; Transition Reports, project performance monitoring reports; Operation Performance Assessments (OPAs)/Operation Performance Assessment Validations (OPAVs) and their predecessors, country strategy papers; transport strategy papers; selected evaluation reports). Relevant data was extracted from the EBRD's information systems and supplemented by information found on the internet related to the Russian railway sector. This material was summarised in:

- Working Paper No. 1: Railway Sector Reform Programme provided the context for the EBRD's operations in the sector by describing the scope of, and the progress made in implementing, the reform programme and the remaining challenges.
- Working Paper No. 2: Overview of the EBRD's Russian Railway Portfolio provided an overview of the Bank's Russian railway portfolio -- the number and type of projects and TCs, an initial assessment of project outcomes and summaries of additionality and mobilising funding from other sources.

This literature review and data analysis helped shape the evaluation framework. The draft approach paper was circulated to Management following the provisions in Operations Manual.

## 2. Scope and methodology

### 2.1 Scope

#### 2.1.1 Results framework for the Russian railway sector evaluation

For the Russian Railway Sector Evaluation, the EBRD's overarching objective was assumed to be the achievement of transition impact through support to the reform of the Russian railway sector and more specifically through the fostering of greater competition and increased private sector participation. A working hypothesis for a results framework for the evaluation is shown in Figure 1.

Figure 1 Results Framework for the Russian Railway Sector Evaluation



Source: Evaluation team

#### 2.1.2 Evaluation questions

The evaluation is designed to address three broad questions:

1. What were the key features, drivers, accomplishments and shortcomings of the actual operational performance of the EBRD's portfolio of Russian railway projects in delivering on the multiple dimensions of the EBRD's mandate (for example transition impact; sound banking; additionality; sustainability)? The evaluation will examine relevance, the results achieved and the efficiency of resource use and will prepare an overall assessment derived from the analysis of these three dimensions of evaluation.
2. How did the full range of EBRD operations (projects; TCs and policy dialogue) in combination contribute at the strategic level to achieving transition and sector-reform objectives by helping to influence the design and implementation of the Russian railway reform programme to support the transition to a competitive railway sector with an increasing role for the private sector?
3. Did the EBRD's operations in the Russian railway sector show coherence and synergy in the use of the EBRD's various instruments? In assessing this question the evaluation will examine whether there is evidence that projects, TCs and policy dialogue were used in a coordinated

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way to: (i) achieve synergies to achieve transition impacts by supporting the Russian railway reform programme; (ii) support the implementation of the Russian country strategies and transport strategies; and (iii) support environmental and social sustainability.

The evaluation design matrix for the Russian railway sector evaluation is shown in Annex 2. The design matrix provides information on the indicators, sources of data, collection methods and the means the evaluation team will use to address data limitations. Key features of the evaluation methodology are discussed in the following sections.

## 2.2 Method

The evaluation is designed to assess:

- The relevance and clarity (including on expectations of results) of the EBRD's strategy and operations in the Russian railway sector and whether there was adequate focus in the strategy on key reform issues in the railways sector;
- The results achieved or effectiveness of the EBRD's Russian railway project and TC portfolios and policy dialogue in achieving objectives, outputs and outcomes and transition impacts;
- The efficiency of resource use in the EBRD's operations both in terms of efficient use of resources covering the financial performance of client companies, soundness of the EBRD's handling, implementation efficiency and the EBRD's investment performance;
- Environmental and social sustainability; and,
- Overall performance, lessons and recommendations for future engagement in the sector.

Each of these elements will be rated on the 4-point scale defined in the draft of Guidance Note 6 (*fully satisfactory; partly satisfactory; partly unsatisfactory; fully unsatisfactory*). The overall rating will be derived from the components ratings for relevance, results and efficiency using a 6-point scale (*excellent; satisfactory; partly satisfactory; partly unsatisfactory; unsatisfactory; completely unsatisfactory*).

## 2.3 Assessment of relevance

The evaluation will assess the relevance of the EBRD's strategy and operations in the Russian railway sector, including whether there was adequate focus on key reform issues in the railway sector, consistency with market based reforms and how EBRD activities contributed, or not, to the railway sector reform agenda. The EBRD is a project and demand driven institution. Although it periodically produces detailed sector level strategies, such strategies do not contain details for each country that would complement the country strategies that set out the main transition objectives at the strategic level, areas of expected policy dialogue, resource envelopes for loans and TCs and profiles of levels and types of lending and TCs. This was the case for the EBRD's operations in the Russian railway sector, with the exception of the RZD 2009 project approved under an integrated approach. Based on a preliminary review of the EBRD's activities, the team has tried to make explicit the implicit strategy for the EBRD's operations in the Russian railway sector (see Figure 1 above).

Relevance will be assessed by examining four building blocks: (i) consistency with the EBRD corporate, Russian country and transport strategies and market based reforms; (ii) relevance and effectiveness of strategic policy dialogue; (iii) relevance of the strategic choices within the framework of feasible choices in the context of the Russian railway reform programme; and (iv) the EBRD's additionality.

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### *2.3.1 Consistency with, and capacity to, deliver on corporate, country and transport strategies and support for market based reforms*

The EBRD's purpose is to foster "the transition towards open market-oriented economies and to promote private and entrepreneurial initiative" by assisting "the recipient member countries to implement structural and sectoral economic reforms, including de-monopolization, decentralization and privatization, to help their economies become fully integrated into the international economy"<sup>2</sup>. In short, the EBRD is to focus on market based reforms. Over the years a number of documents have set out the Bank's corporate objectives and strategies in more detail, including Capital Resource Reviews and documents that set out institutional priorities and medium term strategies. Operations in the Russian railway sector will be reviewed for their consistency with the EBRD's corporate objectives and strategies and for their capacity to help deliver on these strategic objectives.

The EBRD has issued three transport strategies in 1992, 1997 and 2013. These comprehensive documents cover all transport modes, including railways. The transport strategies describe the sector, the reforms needed to support that transition to a market economy and the EBRD's strategy, policies and areas of operation by type of country. The relevance of the EBRD's portfolio of railway loans, TCs and policy dialogue will be assessed for their consistency with the transport strategies and support for market based reforms.

The EBRD has produced eight Russian country strategies, publishing them in 1992, 1993, 1994, 1996, 1997, 2000, 2009 and 2012. The railway sector was consistently identified as a sector of operation in the Russian country strategies beginning in 1993. However, the depth of coverage of railway sector issues was limited in the strategies produced in the 1990s. The 2000, 2009 and 2012 Russian country strategies provided more clarity about the railway reform programme and stated that the EBRD would be engaged in policy dialogue to support the reform process. The relevance of the EBRD's portfolio of railway loans, TCs and policy dialogue will be assessed for their contribution to delivering on the Russian country strategies and their focus on market based reforms.

### *2.3.2 Relevance of strategic policy dialogue*

The EBRD's strategic (or standalone) policy dialogue merits special attention because it was agreed prior to the processing of the 1996 Russian Railway Modernisation Project that the Bank would be the lead IFI in the railway sector and this remains the case.<sup>3</sup> As such, the EBRD was expected to play a leading role in the donor community undertaking policy dialogue to support the formulation and implementation of the railway reform programme and introduce market-based reforms. The Russian country strategies and transport strategies highlight the importance of policy dialogue and the 2009 RZD integrated approach set out a forward looking agenda for railway sector reform to further the introduction of market based reforms. To the extent feasible, the evaluation will follow the methodology used in EvD's [Special Study: The EBRD's experience with Policy Dialogue Ukraine](#) to assess the approach taken to policy dialogue in the Russian railway sector.

The Board documents for all Russian railway projects include a comprehensive appendix summarizing the status of the reforms in the railway sector and the Board documents for the 1996 Railway Modernization project and RZD 2009 project included letters summarizing further government reform commitments. While it is clear market based reforms have been introduced and, based on the material in Russian

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<sup>2</sup> See Articles 1 and 2 of the Agreement Establishing the European Bank for Reconstruction.

<sup>3</sup> EBRD's lead role on the railway sector was explicitly stated in the RZD 1996 Board document and the Russian Country Strategy. During the 20 or so years covered by the evaluation, the World Bank has not provided any loans for the Russian railway sector. Although IFC has provided financing for several private freight operating companies, IFC has not provided support to RZD or its subsidiaries.

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railway appraisal reports, that the EBRD was consistently well informed of the progress of the railway reform programme, based on the material reviewed to date it is not clear how the Bank actually helped to shape or support the implementation of the Russian railway reform programme.<sup>4</sup>

The evaluation will gather information on how policy dialogue was handled through: (i) interviews with staff in EBRD headquarters and the Moscow resident office; (ii) Board documents including the records of Board Consultation Visits to Russia relevant to the railway sector and minutes of the Board meetings approving the Russian railways related projects and documents for relevant Information Sessions; and (iii) available documentation related to Senior Management meetings and missions (such as the Memorandums of Understanding between the EBRD President and the RZD President signed in 2013 between the EBRD and RZD and in 2010 that focused on the energy efficiency strategy).

Management reports that a significant amount of the policy dialogue that helped shape the reform process was carried out by the banking teams in direct discussions around investment projects during the project conceptualisation and structuring phases, when the EBRD has the most leverage with the government and with borrowers. However, such strategic policy dialogue is not usually recorded separately, although Management believes that the results are reflected in the project documents (such as Board papers, project structure and covenants and exchange of letters). The lack of explicit written documentation, together with an inability to interview government officials involved in the policy dialogue, present challenges for the evaluation.

In addition to interviews and document reviews, three policy dialogue case studies will be undertaken:

- i) Harmonising Russian rail freight tariffs across all borders by 2014: As part of its accession to the World Trade Organisation, Russia agreed to discuss the discriminatory pricing practice of higher tariffs for rail freight destined to the Baltic states and Finland than for freight destined to Russian ports. The EBRD provided consultant assistance funded from its budget to help address this issue. Significant progress has been made, although further progress is needed for some commodities (for example oil and oil products and wood).
- ii) Policy dialogue related to the 2009 integrated approach: The Board document states that the EBRD had a well-established relationship with RZD and the Ministry of Transport that included constant policy dialogue on sector issues. The policy dialogue and transition programme linked to the 2009 RZD operation focussed unbundling freight, passenger, auxiliary, non-core services and accounting separation of RZD infrastructure and operations, restructuring all remaining RZD freight operations into separate companies, implementing a public service obligation mechanism for passenger services, establishing an effective independent railway regulator and promoting energy efficiency. This case study will explore how the EBRD undertook this policy dialogue and the results achieved.
- iii) Policy dialogue related to the proposed Second Railway Modernisation project: Although this project was never approved, the EBRD made significant efforts to process it and undertake high-level policy dialogue. This case study will review the extensive paper trail available in the EBRD's files on the policy dialogue, including a discussion paper on proposed railway reforms prepared in 2001 for the Prime Minister, to assess the topics covered, the interaction with high level Russian officials and the proposed use of US\$1.5 million from the foreign and technical assistance programme implemented by the [European Commission](#), the Technical Aid to the Commonwealth Independent States (TACIS) to support railway reforms. Institutional memory other than written documentation will be limited, as most EBRD staff members involved in that project have left transport team and/or the Bank.

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<sup>4</sup> See Working Paper No. 1 for details.

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### 2.3.3 *Relevance in the context of what was possible*

In reaching its conclusions the evaluation team will attempt to assess when policy dialogue was or was not necessary, feasible in the context of political economy considerations and whether it was delivered in the context of the engagements.

The evaluation will assess, with the benefit of hindsight, the appropriateness of the EBRD's strategy for the Russian railway sector and the reforms that the EBRD promoted in the context of the Russian railway reform programme, given the feasible choices that were available to the EBRD. This analysis will recognise the constraints facing the EBRD (for example the modest level of EBRD funding relative to RZD's annual capital investment programme that limited the EBRD's leverage to influence the railway reform programme; single borrower and country lending limits).<sup>5</sup> Because of the large size of the railway network and its economic importance the government makes the major decisions related the design of the reform programme and the timing and sequencing of its implementation. While advice can be provided by the EBRD, decision-making rests firmly with the government and RZD.

### 2.3.4 *Assessing additionality*

Aside from financial additionality, this dimension captures the extent to which the EBRD's participation improves project design and/or incentivizes the participation of private sector players that may not otherwise be involved in the project. The Board document for each project includes a section on additionality. Examining additionality helps to provide evidence whether the EBRD is 'crowding in' or 'crowding out' market funding and/or results in a better project than would be the case if the EBRD was not present in the transaction and is beyond what market sources of financing would provide. Of the 14 projects for which OPAs or OPAVs are available, the additionally claimed in the Board document was *fully verified* or *largely verified* for 10 and *partly verified* for 4.

In line with standard practice, the evaluation team will group the various types of additionality claimed in Board documents under two broad headings: (i) financial additionality; and (ii) non-financial additionality. In assessing additionality the evaluation will verify whether or not the additionality claims made at approval were plausible and examine whether the expected additionality of the EBRD's presence in the transaction materialised in practice. The project-by-project level assessment will be aggregated to develop a rating for the additionality associated with the Russian railway sector portfolio. The information related to additionality currently available to the team was derived from Board documents and other internal EBRD documents. During the interviews with selected private sector railway clients, feedback will be sought on their views on the additionality of having the EBRD involved in the transaction.

## 2.4 **Assessment of results and effectiveness**

Three dimensions will be examined to assess results achieved and effectiveness of the EBRD's operations in the Russian railway sector: (i) achievement of project objectives, outputs and outcomes; (ii) achievement of TC objectives, outputs and outcomes; and (iii) realised transition impacts.

### 2.4.1 *Assessing project results*

Here the team will assess the achievement of project objectives, outputs and outcomes of Russian railway projects, aggregating the project level results to derive an overall assessment for the sector. Available

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<sup>5</sup> Because of single borrower and country lending limits, the EBRD at times had to creatively manage its exposure by converting loans to more liquid assets that could be sold.

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information indicates that the achievement of project objectives has been good. Eleven of the 14 (79 per cent) completed Russian railway projects were rated as *successful*.<sup>6</sup>

The project objectives, outputs and outcomes will be extracted from the Board documents for each project. Drawing on OPAs/OPAVs, when available, the most recent project monitoring reports and, for selected projects, supplemented by interviews with concerned EBRD staff and private sector client companies, actual achievements will be compared to the expectations stated in the Board document to assess the degree to which results have been, or are likely to be, achieved for projects that are at, or near, early operating maturity. The project level results will be used to derive an overall assessment of the results achieved for the portfolio of Russian railway projects.

#### 2.4.2 Assessing technical cooperation results

Technical Cooperation (TC) has the potential to help the EBRD provide additionality and achieve transition impact and has been used to support clients on specific issues related to the EBRD's operations and projects (for example project preparation, project implementation and advisory services) or for non-transactional purposes (for example sector work and training).<sup>7</sup> The EBRD mobilised €5.8 million to finance 32 TCs to support its operations in the Russian railway sector. Nearly all (94 per cent) of the TC was provided in 2000 or earlier, before the government began implementing the railway reform programme in earnest, and 72 per cent of all TC was related to preparing or supporting the implementation of the 1996 Russian Railway Modernization Project. TC was used only to support RZD and its subsidiaries (that is, public sector clients). TC was not provided to private clients in the railway sector. Advisory service TCs did not play a major role in formulating and supporting the implementation of Russia's ambitious, complex railway reform programme. The evaluation team will examine available information from the EBRD's systems related to the volume and nature of TCs to broadly assess the strategic use of this instrument. The evaluation will investigate the reasons why TC was not used more extensively as a tool for intervening in the sector after 2000, especially to support policy dialogue related to helping to design and support the implementation of the railway reform programme and as part of the integrated approach, which should combine TC and policy dialogue for it to actually be an integrated approach.

Case studies will be undertaken for the two most recently approved TCs [including the Institutional Development of First Freight Company (2009) and the Regional Energy Efficiency Programme for the Corporate Sector-Germany-D'Appolonia-RZD (2011)] to gain insights into the processes and procedures used to identify and administer TCs, the quality of TC design, the adequacy of supervision and how the TC outputs were actually used to achieve the desired outcomes, including the steps taken by the EBRD after the consultants completed their work to ensure that the reports produced and advice provided was used to make decisions.

#### 2.4.3 Assessing transition impact

The promotion of transition impact is one of the core mandates of the EBRD. The Bank uses various instruments to deliver transition impacts in its transactions [including demonstration effects; conditions precedent; conditions of disbursement; time bound covenants; project undertakings such as adherence to a sector policy, investment, environment or integrity guidelines, corporate governance changes; board

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<sup>6</sup> The ratings for three of the projects were based on self-evaluations because independent evaluations were not available. All of those projects were rated as *successful*. The ratings of the other 11 projects were based on EvD's independent evaluations.

<sup>7</sup> The EBRD sometimes finances consultants from its budget to undertake special studies (such as the tariff harmonisation study), work related to due diligence (such as financial due diligence; environmental/social work) or to support project implementation (such as procurement). This will be assessed in other sections of the evaluation.

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representation; adoption of international accounting and auditing standards; procurement rules; parallel policy dialogue; TCs and Memoranda of Understanding (MOUs)].

The EBRD defines seven dimensions of transition impact that are grouped under three major headings:

- i) contributions to the structure and extent of markets (such as greater competition in the sector; expansion of competitive market interactions);
- ii) contributions to the institutions and policies that support markets (such as more widespread private ownership; institutions, laws and policies that promote market functioning and efficiency); and,
- iii) contributions to market-based conduct, skills and innovation (such as transfer and dispersion of skills; demonstration of new replicable behaviour and activities; setting standards for corporate governance and business conduct). The Office of the Chief Economist has further refined this framework to classify transition indicators for railway sectors, grouped into two broad categories:
  - a. **Market Structure** (60 per cent weight) that includes: (i) restructuring through institutional separation and unbundling; (ii) private sector participation; (iii) competition and market access; and (iv) market based conduct, skills and innovation).<sup>8</sup>
  - b. **Market Institutions and Policies** (40 per cent weight) that includes: (i) tariff reform and sector financing; (ii) development of an adequate legal framework; and (iii) establishment of a railway regulator.

This framework focusing on market structures and market supporting institutions and policies will be used to assess the transition impact of each railway project, based on information available in Board documents, annual Transition Reports, Transition Impact Monitoring System reports and OPAs/OPAVs. The transition impacts for RZD projects and private sector projects will be compared to identify differences in the types of transition planned and achieved for the two forms of ownership. The expected transition impacts of RZD projects and projects with private sponsors are different. The evaluation will focus on analysing these differences and what explains them. The EBRD's overall contribution to transition impact associated with operations will be derived by aggregating the project level analysis. At the sector level the assessment of transition impact will draw on the analysis presented in the annual Transition Reports that will be verified by the evaluation team's assessment of the evolution of the Russian railway sector set out in Working Paper No. 1.

## 2.5 Assessment of efficiency

The efficiency assessment will be based on four factors: (i) company financial performance; (ii) EBRD handling; (iii) implementation efficiency; and (iv) the EBRD's investment performance.

### 2.5.1 Assessing company financial performance

Financial performance is an indicator of sound banking, project success and the efficient use of resources. Of the 14 Russian railway projects for which OPAs/OPAVs have been completed, project financial performance was rated as *Excellent* for 3, *Good* for 7, *Satisfactory* for 1 and *Marginal* for 3. The assessment of projects' financial performance can be challenging because project experience demonstrates the financial performance of railway projects can be impacted by the economic

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<sup>8</sup> The EBRD's Office of the Chief Economist defined specific railway-related indicators for each of these sub-headings.

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circumstances prevailing at the time of the assessment. During times of economic crises (for example in 1999 and 2008/2009) railway traffic fell, adversely affecting the financial performance of railway companies. Sanctions imposed as a result of events in eastern Ukraine may affect the financial results of railway companies but the last full year audited financial results available for the evaluation will likely be for 2013. Project experience demonstrates that the EBRD can play a leading role working with its clients and commercial banks to restructure companies and their debt profiles to address the financial consequences of an economic crisis (for example FESCO and Basis Leasing/InPromLeasing).

The analysis of financial performance will be based on an examination of company financial performance based on the most current available data, the expectations set at the time of approval and compliance with financial loan covenants. The evaluation will examine OPAs/OPAVs, project monitoring reports and material available from rating companies for Russian railway companies that are listed or have credit ratings. These project level findings will be aggregated separately for private companies and RZD and its subsidiaries to rate the overall financial performance of the EBRD's Russian railway portfolio. In addition to the project-level financial performance, the evaluation team will analyse RZD's financial performance over the reform period. The purpose of this RZD analysis will be to determine whether RZD's financial performance has improved and to what extent this was due to reforms carried out.

### 2.5.2 Assessing the EBRD's bank handling

Based on the ratings in the OPAs/OPAVs, the EBRD's bank handling of projects in the Russian railway sector appears to be good and few problems were identified. Of the 14 completed projects for which ratings were available, bank handling was rated as *satisfactory* or better for all but one – 2 were rated as *excellent*, 8 as *good*, 1 as *satisfactory/good*, 2 as *satisfactory* and 1 as *marginal*. The OPAs/OPAVs assessment of bank handling will be supplemented by an examination of issues related to: (i) project due diligence, processing, implementation and monitoring; (ii) mobilising other sources of financing; (iii) addressing integrity issues; and (iv) the roles of Headquarters and the Moscow Resident Office.

Because of time and resource limitations and the erosion of institutional memory, it will not be possible to for the evaluation team to assess bank handling in detail for all 23 railway projects. Rather, the assessment of handling will be based largely on the findings reported in OPAs/OPAVs, supplementing material available in the OPAs and OPAVs by examining four relatively recent projects as case studies:

- **RZD 2009/RZD (2010):** The US\$500 million RZD 2009 loan was prepaid and the EBRD supported RZD's international bond issue under a second project, RZD 2010. These transactions were selected for detailed assessment because it is important for the evaluation team to understand how this large loan was processed and monitored and whether the pre-payment of the loan and sale of the bond impacted on the EBRD's involvement in supporting the railway reform programme, processing the pipeline of projects identified in the RZD 2009 Board document and how the EBRD ensured that the proceeds of the bond sales were used for the purposes intended. It will also illustrate proactive measures that the EBRD took to manage its exposure to RZD.
- **RZD Energy Efficiency 2010:** This project involved participation in an international bond, an instrument selected to proactively manage the EBRD's exposure to RZD. The proceeds of the bond sale were to be used to support energy enhancement initiatives in railway stations. This case study will feed into the team's energy efficiency work under the environmental change assessment described in Section 2.6.2. There was a framework agreement for the RZD Energy Efficiency bond that stipulated some RZD's commitments, in particular in the areas of procurement and use of funds. The RZD Energy Efficiency

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case study may illustrate how the EBRD ensures that the bond proceeds are used for the purposes intended.

- **FESCO II (2009):** This case study will illustrate how the EBRD provided emergency assistance to help a client restructure and negotiate with commercial bankers to avert serious financial problems caused by the 2008/2009 economic crises.
- **Brunswick Rail 2009, 2012 and 2013:** These series of transactions involved a loan (2009) that was prepaid and replaced by a bond issue (2012) that was in turn sold and replaced by a pre-IPO equity investment. This case study will illustrate how the EBRD processed and monitored a number of transactions using different instruments. It may shed light on how the EBRD manages projects involving clients domiciled off shore and coordinates with IFC at the project level. Also, after the 2009 loan was approved wagon prices increased substantially. The EBRD provided supplementary financing so that Brunswick Rail had the financing necessary to purchase the targeted number of wagons. The Brunswick Rail case study will illustrate how the Bank can support its clients during project implementation when unexpected events take place that can adversely affect the project.

The case studies will involve a review of existing documentation and interviews with EBRD staff members at headquarters and in the Moscow Resident Office and private sector client companies.

#### Project due diligence, processing, implementation and monitoring

Based on available material, the evaluation will examine the application of the EBRD's bank handling procedures, their effectiveness and efficiency for the operations in Russian railway sector. Separate stages of the project lifecycle will be analysed:

- **Project selection, due diligence and processing:** The assessment of the project approval stage covers due diligence/preparation, design and structuring. The evaluation will examine project origination, quality at entry including an assessment of the quality/adequacy of due diligence, documentation, project design to meet objectives, risk identification and mitigation, negotiations and structuring, client relationships, syndication aspects, legal aspects and the extent to which lessons and experience informed choices.
- **Project monitoring and implementation:** The assessment of project monitoring and implementation will examine the frequency of site visits, Board participation, consents to waivers and amendments, identifying and resolving issues (for example early warnings and troubleshooting), monitoring the implementation of covenants and financial performance, submission of required reports, environment and social monitoring, client relations and instances when actions were taken to manage exposure issues or to support clients facing financial difficulty because of the economic crises, a failure of syndication or a sharp increase in the cost of wagons.

The role of various internal stakeholders – the Board, the committees, transport banking teams, the Office of the Chief Economist, the Office of the General Counsel, the legal transition team, the environment and sustainability department, procurement and others will be analysed as well as the degree of co-ordination among the units.

#### Mobilising other sources of financing

The Agreement Establishing the EBRD highlights its role as a catalyst to mobilise other sources of financing. The importance of co-financing was emphasised in the 1997 Transport Operations Strategy. Data will be extracted from the EBRD's financial management system to quantify: (i) the total financing

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involved in the Russian railway projects that EBRD supported; (ii) the proportion of total financing from external sources (independent of EBRD's involvement in the project); (iii) the proportion of total financing that was classified as co-financing, that is, non-EBRD financing that was provided by other co-financiers alongside EBRD financing; and (iv) the proportion of total financing that was classified as participation/syndication, which includes A/B loans. Funds mobilised by the EBRD are those classified as co-financing and participation/syndication. Other sources of funding will be divided into private commercial sources and other sources of financing. Benchmarks will be developed to compare the proportions for the Russian railway portfolio with the EBRD's Russian portfolio, Russian transport projects and the transport portfolio. This analysis will indicate the degree to which the EBRD succeeded in "crowding in" other sources of financing, whether the planned syndications or co-financing materialised and what actions the EBRD took if it did not.

#### Addressing integrity issues

Various indexes, reports and press articles indicate that governance and corruption are major problems in Russia (Russia's ranking in Transparency International's Corruption Perception Index deteriorated from 87<sup>th</sup> out of 133 in 2003 to 127<sup>th</sup> out of 177 in 2013). The World Bank Group's Russian Country Partnership Strategy stated that corruption is a significant development challenge. Russia ranked 92<sup>th</sup> among 189 economies in the World Bank's 2013 'Doing Business' report.

The EBRD is engaged with both public and private railway companies that have different structures of ownership, standards of accountability and transparency. Ownership and corporate structures for some clients are multi-layered and complicated, often involving a number of geographical jurisdictions, which sometimes makes identification of the ultimate beneficiary challenging. While this may help to diversify risks and protect private ownership, it can complicate the process of integrity due diligence and control over compliance. As the evaluation proceeds, the sometimes complex ownership structures, some of which were domiciled in Cyprus, will be examined.

The EBRD has comprehensive and strict policies and procedures related to ensuring that its business in the countries of operation complies with international ethical standards and practices of fair business, transparency and integrity. A great deal of effort is invested in undertaking integrity due diligence analysis and checks of potential clients and ensuring that existing clients comply with the established standards and criteria. The EBRD does not treat projects in Russia or any other country with poor scores on corruption indexes in a special way in terms of integrity investigations. Rather, a standard approach is used for all projects.

The evaluation will examine the application of the EBRD's integrity policies and procedures for Russian railway projects and the degree that integrity issues featured in the EBRD's banking and TC operations, and policy dialogue with Russian authorities and non-governmental stakeholders. The team will talk to a range of EBRD staff and external counterparts and undertake internet searches in English and Russian to establish the impact these policies and procedures had on shaping the EBRD's operations in the railway sector as well as on a wider investment climate and regulatory environment in Russian railway sector. The evaluation will not examine the details of the integrity investigations or assess the soundness of the the EBRD's integrity policies and procedures. Those issues are beyond the scope of the evaluation. Rather the evaluation will assess how integrity issues affected the choices made or not made and the possible effect of integrity issues on the results achieved in the Russian railway sector.

#### The roles of Headquarters and the Moscow Resident Office

Over the years the EBRD's corporate governance structure and processes used to manage the Russian railway portfolio have evolved significantly. Initially the EBRD's railway experts were based in London Headquarters and flew to Moscow to undertake high level policy dialogue or to attend to project

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processing/implementation matters. However, there has been a clear trend to strengthen the expertise in the Moscow Resident Office and to increase its autonomy and authority to undertake policy dialogue. In 2006 the managing director for Russia initiated the creation of in-country team that led policy dialogue with Russian counterparts and resulted in less of a need for headquarters' staff to be engaged in the policy dialogue directly. The subsequent two Russian managing directors continued taking the lead in policy dialogue and building a platform to engage with Russian government counterparts. In early 2013 the EBRD decided to move the management of the Russian transport portfolio to the Moscow Resident Office where the managing director and all staff involved are based. Only one banker remains in headquarters dealing with the Russian railway portfolio. The evaluation will examine the implications of the changing roles Headquarters and the Moscow Resident Office play on the attainment of results and effectiveness of operations.

The assessment of the role of the Moscow Resident Office in the EBRD's operations in the Russian railway sector will be based on a review of the documentation related to the projects and TCs selected for case studies, interviews with EBRD staff in headquarters and the Resident Office and selected private client companies. The issues to be examined will include the role of headquarters and Moscow-based staff in supporting policy dialogue, identifying and supporting the processing of railway projects including its role in responding to comments after the Environment and Social Impact Assessments (ESIAs) are publicly disclosed, supporting implementation (particularly the procurement phase, submission of required documents and follow up regarding compliance with loan covenants and environmental/social issues), helping to identify and resolve problems during implementation and client relationship management. The analysis of the evolution of the roles of Headquarters and the Moscow Resident Office will take into consideration the matrix approach within Banking, with a continued joint role both of country and sector teams and managing directors, increased sector resources on the ground, and the role of other Headquarters based teams such as the Office of the Chief Economist, the environment and sustainability department and the energy efficiency and climate change team).

### *2.5.3 Implementation efficiency*

Portfolio data will be analysed to compare the time required to implement Russian railway projects and benchmarked against all projects in the EBRD's railway portfolio, Russian transport projects portfolio and general transport portfolio. The average number of days between key milestones will be analysed and used as broad proxies for implementation efficiency: (i) the first and final disbursement; (ii) signing and final disbursement; and (iii) Board approval and signing. These indicators will be analysed separately for public and private sector projects and attempts will be made to identify the key drivers of speed/delays in delivering on objectives.

This analysis will provide a broad overview of the relative efficiency of project implementation in the Russian railway sector and whether there are systemic delays related to fulfilling conditions precedent, procurement (for example, tendering and contract award), project execution or the EBRD issuing the required approvals during project implementation. However, the resulting conclusions will need to be caveated by two factors: (i) there were proportionately more private railway projects in Russia than in other countries; and (ii) two of the three public sector projects in Russia involved bonds, which were quickly disbursed – bonds were not used in public railway projects in other countries.

### *2.5.4 Assessing the EBRD's investment performance*

Assessing the EBRD's investment performance is an indicator of the efficiency of the Russian railway portfolio. Assessments of investment performance are available for nine completed projects. Of those 2 were *highly unsatisfactory*, 1 was *marginal*, 4 were *satisfactory* and 1 was *good*. The team will attempt to

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extend the assessment of the EBRD's investment performance by requesting updated estimates for the following projects: (i) John Nurminen Wagon (2006); (ii) TransContainer (2007); (iii) Freight One (2008); (iv) Macquarie Renaissance Infrastructure Fund; (v) FESCO II (2009); (vi) RZD (2010); (vii) RZD Energy Efficiency (2010); and (viii) Brunswick Rail (2012).

Based on the forgoing the evaluation will rate the EBRD's investment performance for the Russian railway portfolio. Expectations are set out in the Board documents for the EBRD's investment performance. The team faces a constraint in rating investment performance because EvD guidance to staff does not provide clearly defined cut-off points as to whether a particular level of investment performance should be rated as *fully satisfactory*, *partly satisfactory*, *partly unsatisfactory* or *unsatisfactory*. Thus the evaluation will define its own cut-off points.

## **2.6 Assessment of environmental and social sustainability**

### *2.6.1 Assessing environmental and social performance*

Given the types of project financed, the projects in the Russian railway portfolio had a relatively limited impact on the environment compared to other types of railway projects, transport modes and industries.<sup>9</sup> Of the 14 completed projects, Environmental and Social Performance was rated as *good* in 9 OPAs/OPAs, *satisfactory* in 4 and *marginal* in 1.

Typically the Board document stated that the environmental and social due diligence included discussions with the client's management and a review of an environmental and social questionnaire. Freight wagon projects were not expected to result in significant direct environmental or social impacts and the new wagons were expected to meet EU requirements. The companies' environmental, health and safety, and quality management systems were reviewed. Some were ISO14001, OHSAS18001 and ISO9001 certified and in other cases covenants required the company to take steps to improve their environmental and social policies and practices.

To assess Environmental and Social performance of the EBRD's portfolio of Russian railway projects, the evaluation team will interview concerned staff in the environment and sustainability department, examine related findings in the OPAs/OPAs and Environmental and Social Impact Assessments (ESIAs), Environmental and Social Action Plans (ESAPs) and related monitoring reports for selected Russian railway projects, including RZD Energy Efficiency, to see how environmental and social issues and energy efficiency were integrated into the mainstream activities and what impact they had on the specific operations and on the sector in general.<sup>10</sup>

### *2.6.2 Assessing the extent of environmental and social change*

Most Russian railway projects involved the acquisition of freight wagons and OPAs/OPAs found that such projects did not have a major impact in terms of environmental or social change – 2 were rated as *none / negative*, 7 as *some*, 3 as *substantial*, 1 as *outstanding* and one was not rated.<sup>11</sup> The team will interview environment and sustainability department staff members and review environmental and social monitoring reports for four case studies to assess whether these conclusions are broadly consistent for those projects.<sup>12</sup>

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<sup>9</sup> Most of the projects involved the procurement of freight wagons for private sector clients or track rehabilitation for one RZD project. While new railway track construction does have important impacts on the environment, such projects were not financed in the EBRD's portfolio of Russian railway projects.

<sup>10</sup> The same four projects selected as case studies for EBRD handling.

<sup>11</sup> Projects in the Russian railway portfolio did not involve the construction of new lines. Only one project, the 1996 Railway Modernisation Project, involved the rehabilitation of tracks.

<sup>12</sup> The same four projects selected as case studies for EBRD handling.

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In addition, the evaluation will examine two issues in more detail to determine if there are lessons related to: (i) energy efficiency, using the RZD Energy Efficiency project as a case study; and (ii) labour redundancy since RZD has reduced its workforce from 2.2 million in the 1990s to 934,000 people in 2012. The substantial reduction of the RZD workforce reflects its redundancy program as well as the decentralisation of the sector and spin off/privatisation of RZD subsidiaries and lines of businesses. Based on the forgoing, the evaluation team will rate the extent of environmental and social change associated with the Russian railway portfolio.

## **2.7 Overall performance of the EBRD's operations in the Russian railway sector**

Based on an aggregation of these dimensions of evaluation, the evaluation will rate the overall performance of the EBRD's operations in the Russian railway sector using the 6-point scale (*Excellent; Satisfactory; Partly Satisfactory; Partly Unsatisfactory; Unsatisfactory; Completely Unsatisfactory*).

## **2.8 Lessons and recommendations**

Based on the analysis described above, and a review of the lessons and recommendations included in completed OPAs/OPAVs to identify strategic and/or repetitive findings, the team will: (i) develop an overall assessment for the EBRD's operations in the Russian railway sector identifying a limited number of key issues and what lessons can be identified; and, (ii) formulate a limited number of high level, strategic recommendations that are relevant for future operations.

## **2.9 Information sources and triangulation of information**

The evaluation will draw on information from a range of sources and information to help ensure that the conclusions that flow from the analysis are robust, including:

- EBRD documents (including Russian railway Board documents, Transition Reports, transition impact monitoring system reports, project monitoring reports, OPAs/OPAVs, Russian country and transport strategies, ESAs and ESAPs).
- Relevant documents on the Internet, including those on the RZD home page.
- Semi-structured interviews of key informants in EBRD headquarters, the Moscow Resident Office, former EBRD staff members, private sector client companies and Moscow based IFC staff involved in the railway. Because of the guidance provided for the evaluation, officers in RZD and RZD subsidiaries, government officials in agencies involved in railway policy formulation, regulation and safety will not be interviewed for the evaluation (see Section 2.10).
- Analysis of data available in the EBRD's information systems, RZD statistical information and data available from the World Bank.
- Case studies.

## **2.10 Limitations of the evaluation**

The approach paper has been prepared in the context of EBRD Board guidance regarding engagement in Russia. Operationally for EvD this has the following implications. EvD will continue with work programme evaluations that involve Russia but the methodology will be changed as follows.

- EvD will not pursue interviews with Russian government officials, or officials in state-owned or controlled or quasi-state owned enterprises.

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- Field work for these purposes will be curtailed
  - Interviews and fieldwork with respect to non-state entities (such as private firms, academicians and institutes) can proceed.
  - Interviews with EBRD staff members and former EBRD staff members involved in evaluation-related matters can proceed, with field travel for this purpose

EvD's basic approach for this evaluation will be to press ahead with any and all contacts and activities that do not directly involve Russian government or quasi-government officials or entities. Consultations will take place with private sector clients and Moscow resident mission staff. However, government officials involved in railway policy and regulatory matters and RZD officers will not be contacted for this evaluation. This is a major limitation of the evaluation. The situation with regards to EBRD-Russia engagement and the nature and timing of fieldwork in Russia will be kept under review in consultation with the Audit Committee, through which the EvD reports to the Board. It will be a matter of judgment as to how to structure and present the resulting findings and possible follow-up work.

Other potential challenges and limitations of the evaluation include:

- Incomplete documentation on the EBRD's policy dialogue activities, something that has been documented in past evaluations and challenges determining the EBRD's contributions to railway reforms and policy changes.
- Weaknesses in TC document management, which is an EBRD-wide issue.
- An erosion of the EBRD's institutional memory because of the passage of time and staff turnover.
- Limited documentation of the demonstration effect associated with the EBRD's operations.
- Challenges of adequately assessing the complex ownership structures and integrity issues.

### **3. Administrative arrangements**

#### **3.1 Evaluation team**

The evaluation team will consist of a combination of EvD staff and consultants. Strategic direction and overall quality control will be provided by Joe Eichenberger, the Chief Evaluator, and Keith Leonard, Senior Adviser. The team includes:

- Bruce Murray, Evaluator / Team Leader, who has extensive experience in planning, managing, undertaking and providing quality control for higher level evaluations and has broad exposure to the transport sector, including railways.
- Andrei Evdokimov, Consultant and Russian railway expert, who has extensive experience in the Russian railway sector, detailed knowledge of the railway sector reform programme and tariff/regulatory issues and has worked as a consultant with private freight wagon companies.
- Olga Mrinska, Consultant and Policy Evaluator, who has experience undertaking higher-level policy evaluations for the EvD, is familiar with its methodologies and sources of data, has experience assessing integrity issues and can fluently speak and read Russian
- Chiara Bocci, Evaluation Manager for Technical Cooperation, will provide occasional input on TC as required.

- EvD staff members, Beatriz Pérez Timermans, Saeed Ibrahim, Natalia Lakshina and Stephanie Crossley, will undertake research and provide analytical and administrative support for the evaluation team.

### 3.2 Peer reviewers

Keith Leonard, Senior Adviser, will be the internal peer reviewer. The External Peer Reviewer is Graham R. Smith, who has extensive experience in the transport sector, including the railway sector in general and the Russian railway in particular, with the World Bank and the EBRD.

### 3.3 Key deliverables and milestones

The key deliverables and milestones of the evaluation team are:

Evaluation starts	April 2014
Consultants recruited and visas issued	May to July 2014
Preliminary data gathering and analysis, literature review and development of the evaluative framework	April to July 2014
Consultants Visit EBRD Headquarters	July 2014
Draft Approach Paper and Working Papers Nos. 1 and 2 circulated	May/August 2014
Approach Paper Finalized after considering management's comments on the draft and the final version of the Approach paper is circulated to Management	November 2014
Interviews in Russia	January 2015
A Working Paper delivered by the team leader covering relevance, additionality, transition, company financial performance and the EBRD's investment performance	January 2015
A Working Paper submitted by the senior Russian railway expert covering feedback from key informants interviewed in Russia and analytical work related to the Russian railway system	February 2015
A Working Paper submitted by the policy evaluator covering policy dialogue, the EBRD's bank handling, integrity issues and environmental/social issues.	February 2015
Preliminary review: Draft report circulated to internal EvD and external peer reviewers	March 2015
Draft evaluation report cleared by the Chief Evaluator for circulation to Management for comments	March 2015
Review by Management – draft sent to Management (Transport and Moscow directors and focal point at Vice President Policy). Management should provide written comments should in 20 working days.	March 2015
Meeting with Management – within 10 days of receiving written comments –	April 2015

to discuss key points. EvD prepares minutes and sends to management within 5 days after meeting date.	
Report finalized and submitted to EvD after considering feedback from Management	May 2015
Review and approval of the final report by the Chief Evaluator.	May 2015.
Review of the final report by Management – consolidated comments should be sent to EvD within 25 working days.	June 2015
Final report disclosed together with Management's comments on the final report.	July 2015

### **3.4 Budget**

In addition to the value of staff time, EvD has allocated a budget of £91,300 to finance the preparation of the Russian railway sector evaluation. These funds will be used to finance lump sum contracts for the three consultants recruited to undertake the evaluation covering their professional fees and the cost of their travel to London and associated accommodation and daily subsistence allowance.

## Annex 1: Summary of the Russian railway reform programme

Phase	Steps
Pre-2001	<ul style="list-style-type: none"> <li>– MPS created from the larger Soviet MPS</li> <li>– Vision for Railway reform (1995) and related legislation (1995) and decrees (1997 and 1998)</li> <li>– Shed some social services and began reducing staffing levels</li> <li>– Privatised some railway supply industries</li> </ul> <p>Introduced competitive bidding into MPS's procurement processes</p>
2001-2003	<p>Establishing the legal framework:</p> <ul style="list-style-type: none"> <li>– Adopted the law and regulations to separate policy/regulatory functions and commercial/business functions</li> </ul> <p>Assessed assets, audited companies and consolidated accounts</p>
2003-2005	<p>Asset unbundling and institutional and legal separation of some of RZD's lines of business or subsidiaries by:</p> <ul style="list-style-type: none"> <li>– ROSZHELDOR in the Ministry of Transport made responsible for railway sector policy</li> <li>– ROSTRANSNADZOR made responsible for transport safety monitoring</li> <li>– Federal Energy Commission (later - Federal Services for Tariffs) regulates rail tariffs</li> <li>– Federal Antimonopoly Service restructured and regulations railway services provided by RZD as a natural monopoly</li> <li>– Created RZD as a company that initially took over all of MPS's assets and operating responsibilities</li> <li>– Maintained RZD as a single owner of infrastructure, signalling, dispatching system and mainline locomotives.</li> <li>– Created 27 RZD subsidiaries including those for: <ul style="list-style-type: none"> <li>➤ General freight services</li> <li>➤ Transit freight services</li> <li>➤ Intermodal freight services</li> <li>➤ Refrigerated freight services</li> <li>➤ Wagon repair</li> <li>➤ Production and repair of track maintenance equipment</li> </ul> </li> <li>– Decree on non-discriminatory access to railway infrastructure issued</li> <li>– Issued Tariff 10-01 to encourage private investment in freight wagons by separating the wagon component in the tariffs and Tariff 10-02-16 for passengers. Freight tariffs for wagons owned by private companies or RZD subsidiaries deregulated<sup>A</sup>.</li> <li>– Began phasing out cross-subsidisation of passenger operations by freight operations</li> <li>– Introduced IFRS accounting and increased financial transparency by disclosing audited statements.</li> </ul>
2006-2010	<p>Promoting competition for the provision of passenger and freight services by continuing to create RZD subsidiaries:</p> <ul style="list-style-type: none"> <li>– More freight subsidiaries including Freight One and TransContainer</li> <li>– Long distance passenger services (Federal Passenger Company)</li> <li>– Commuter passenger services with regional governments</li> <li>– Locomotive and rolling stock repair facilities</li> <li>– Construction services</li> <li>– Research and development</li> <li>– Began selling RZD shares in subsidiaries (e.g., TransContainer; wagon depots) and established the first PPPs</li> <li>– RZD issued international bonds</li> <li>– Revised and adjusting the tariff policy</li> </ul> <p>Subsidised long distance passenger and commuter services from government and regional government budgets</p>
2010-2015	<p>Continuing the reforms:</p> <ul style="list-style-type: none"> <li>– Full privatisation of Freight One</li> <li>– Established Federal Freight (formerly Freight Two), the remaining 100 per cent RZD owned freight railcar operator</li> <li>– Continued selling or preparing to sell equity stakes in RZD subsidiaries (for example Freight One) and RZD itself</li> </ul>

- Changes in Tariff 10-01: separation of infrastructure and locomotive component; harmonization of tariffs to Russian and Baltic ports to comply with WTO accession agreement; equalisation of empty return tariffs for some types of universal wagons, stopping the practice of exceptional tariffs for some commodities, companies or industries; allowing tariff corridors (-12 per cent /+13 per cent) for RZD under specified conditions; equalisation of tariffs within the Customs Union of Russia, Kazakhstan and Belarus
  - Public discussion on the creation of private carriers that operate both their own wagons and locomotives
  - End cross subsidy of passenger services by revenue from freight services
  - Deregulated high quality long distance passenger fares. The cheapest passenger fares are regulated and subsidised
  - Suburban passenger companies no longer legally part of RZD
  - First auction to sell shares in passenger commuter subsidiary
- FST approves regulated return on asset base tariff methodology but it is not yet implemented.

Notes A = There are two tariff books for freight. Tariff 10-01, for Russian domestic traffic and export/import traffic via Russian ports and the second based on the 1993 Tariff Policy of CIS Railways. Both tariff books are complex, exceeding 100 pages in length. Tariffs are calculated according to the methodologies and formulas set out in the tariff books. Freight tariffs for wagons owned by private companies or RZD subsidiaries deregulated. Tariff 10-02-16 applies to regulated domestic and international passenger traffic.

Source: Figure 3 in Working Paper No. 1

## Annex 2: Evaluation design matrix

Evaluation question	Judgment criteria	Indicators	Sources of data	Collection methods	Potential limitations of data and means to address this
1. What were the key features, drivers, accomplishments and shortcomings of the actual operational performance of the EBRD's portfolio of Russian railway projects in delivering on the multiple dimensions of the EBRD's mandate (including transition impact; sound banking and additionality)?	Assessment of the relevance of the EBRD's Russian railway operations related to the EBRD's corporate strategies, country strategies and transport strategies; strategic policy dialogue; feasible strategic choices; and expected and demonstrated additionality.	Aggregate relevance rating and ratings of each relevance component (for example consistency with the EBRD's corporate strategies, Russian country strategies, transport strategies; strategic policy dialogue; feasible strategic choices; and expected and demonstrated additionality).	<ul style="list-style-type: none"> <li>– Analysis of the Russian Railway Reform Programme in Working Paper No. 1</li> <li>– Analysis of the EBRD's Russian Railway Portfolio in Working Paper No. 2</li> <li>– Analysis of EBRD's corporate strategies, Russian country strategies, and transport strategies.</li> <li>– Board documents</li> <li>– OPAs/OPAVs</li> <li>– Interviews with EBRD staff in London and the Moscow Resident Office</li> <li>– Interviews with private client companies</li> </ul>	<ul style="list-style-type: none"> <li>– Preparation of Working Papers Nos. 1 and 2</li> <li>– Documents extracted from the EBRD's Databases</li> <li>– Documents provided by teams</li> <li>– Key informant interviews in EBRD, the Moscow Resident Office and private client companies</li> </ul>	<ul style="list-style-type: none"> <li>– Not interviewing RZD officers and government officials involved in railway policy and regulatory matters on the relevance of EBRD's operations in the Russian railway sector.</li> <li>– A loss of institutional memory because of staff turnover and a loss of documents. To compensate for this the evaluation team will focus its analysis on the more current projects and rely on OPAs/OPAVs for the older projects. Fortunately there were relatively few Russian railway projects approved in the 1990s and most have been approved in 2007 or later.</li> <li>– Availability of key informants for interviews. The fact that one member of the evaluation team is based in Moscow and one is based in London should make it easier to coordinate schedules for interviews. The use of teleconferencing will also facilitate coordination for interviews.</li> <li>– Availability of documents only saved on individual team network directories. Access to relevant document will be requested during interviews.</li> <li>– The evaluation team will use the performance assessment framework set out in the June 2014 draft of EvD's Guidance Note 6. There are some differences with the previous</li> </ul>
	Assessment of the results achieved by projects and realised transition impact.	Aggregate results rating ratings of each efficiency component (for example results achieved by completed projects and projects nearing early operating maturity and realised transition impact).	<ul style="list-style-type: none"> <li>– Analysis of the Russian Railway Reform Programme in Working Paper No. 1</li> <li>– Analysis of the EBRD's Russian Railway Portfolio in Working Paper No. 2</li> <li>– Analysis of EBRD's corporate strategies, Russian country strategies, and transport strategies.</li> <li>– Board documents</li> <li>– TIMS reports</li> <li>– Project monitoring reports</li> <li>– OPAs/OPAVs</li> <li>– Interviews with EBRD staff in London and the Moscow Resident Office</li> <li>– Interviews private client companies</li> </ul>	<ul style="list-style-type: none"> <li>– Preparation of Working Papers Nos. 1 and 2</li> <li>– Documents extracted from EBRD Databases</li> <li>– Documents provided by teams</li> <li>– Key informant interviews in EBRD, the Moscow Resident Office and private client companies</li> </ul>	
	Assessment of the efficiency of resource use of completed projects and projects nearing early operating maturity covering company financial performance; the EBRD's	Aggregate efficiency rating and ratings of each efficiency component (e.g., company financial performance; the EBRD's Bank handling;	<ul style="list-style-type: none"> <li>– Analysis of the EBRD's Russian Railway Portfolio in Working Paper No. 2</li> <li>– Board documents</li> <li>– OPAs/OPAVs</li> <li>– TIMS and transition reports</li> <li>– Project monitoring reports</li> </ul>	<ul style="list-style-type: none"> <li>– Preparation of Working Paper No. 2</li> <li>– Documents extracted from EBRD Databases</li> <li>– Documents provided</li> </ul>	

	<p>bank handling during design, processing, implementation and monitoring and examining issues related to mobilising other sources of financing and integrity; implementation efficiency, and EBRD investment profitability.</p>	<p>implementation efficiency; EBRD investment profitability).</p>	<ul style="list-style-type: none"> <li>– Cofinancing data</li> <li>– Portfolio data</li> <li>– Project monitoring reports</li> <li>– Information available from rating companies</li> <li>– World bank governance and doing business data bases</li> <li>– Information on integrity available on the internet</li> <li>– Interviews with EBRD staff in London and the Moscow Resident Office</li> <li>– Interviews with private client companies</li> </ul>	<p>by teams</p> <ul style="list-style-type: none"> <li>– Key informant interviews in EBRD, the Moscow Resident Office, and private client companies</li> <li>– Information available from rating companies</li> <li>– Extract data available from EBRD systems</li> <li>– Download data available from World Bank</li> <li>– Search for relevant material on the internet</li> </ul>	<p>OPA/OPAV guidelines. Professional judgement will be applied as needed to reconcile any differences and to adopt it for a sector evaluation.</p> <ul style="list-style-type: none"> <li>– Data may not be available to objectively demonstrate the effectiveness of the steps taken to improve transparency and reduce the risk that integrity issues could infect the projects in the Russian railway portfolio.</li> </ul>
	<p>Overall assessment derived from the ratings of relevance, results and efficient resource use.</p>	<p>Overall assessment rating</p>	<p>Ratings for relevance, results and efficiency derived above.</p>	<p>Analysis described above.</p>	

Evaluation question	Judgment criteria	Indicators	Sources of data	Collection methods	Potential limitations of data and means to address this
<p>2. How did the full range of EBRD operations (including projects; TCs and policy dialogue) in combination contribute at the strategic level to achieving transition and sector-reform objectives by helping to influence the design and implementation of the Russian railway reform programme to support the transition to a competitive railway sector with an increasing role for the private sector?</p>	<p>The aggregate contribution of the projects in the Russian railway portfolio to achieving a transition impact at the strategic level by helping to influence the design and implementation of the Russian railway reform programme to support the transition to a competitive railway sector with an increasing role for the private sector.</p>	<p>Trend in the number of private freight wagons operated by EBRD clients as a share of total freight wagons and as a share of all private freight wagons.</p> <p>Specific transition benchmarks and/or covenants that had an impact at the strategic level in influencing the design and implementation of the Russian railway reform programme.</p> <p>The EBRD's contribution to landmark transactions (for example the Globaltrans' IPO; TransContainer's IPO; support for Freight One, which was eventually fully privatised; RZD's 2010 and 2011 bond issues; Brunswick Rail's 2012 Eurobond issue).</p>	<ul style="list-style-type: none"> <li>- Analysis of data showing the composition of the freight wagon fleet.</li> <li>- Analysis of the Russian Railway Reform Programme in Working Paper No. 1</li> <li>- Board documents</li> <li>- OPAs/OPAVs</li> <li>- TIMS and transition reports</li> <li>- Transition reports</li> <li>- Project monitoring reports</li> <li>- Information available from rating companies</li> <li>- Interviews with EBRD staff in London and the Moscow Resident Office</li> <li>- Interviews with private client companies</li> </ul>	<ul style="list-style-type: none"> <li>- Preparation of Working Papers Nos. 1 and 2.</li> <li>- Statistical data available from RZD.</li> <li>- Documents extracted from EBRD Databases</li> <li>- Documents provided by teams</li> <li>- Key informant interviews in the EBRD, the EBRD Moscow Resident Office and private client companies</li> <li>- Information available from rating companies</li> <li>- TC databases</li> <li>- Documents provided by teams</li> </ul>	<ul style="list-style-type: none"> <li>- Not interviewing RZD officers and government officials involved in railway policy and regulatory matters on the transition results achieved by Russian railway operations.</li> <li>- A loss of institutional memory because of staff turnover and a loss of documents. To compensate for this the evaluation team will focus its analysis on the more current projects and rely on OPAs/OPAVs for the older projects. Fortunately there were relatively few Russian railway projects approved in the 1990s and many have been approved in 2007 or later.</li> <li>- Availability of key informants for interviews. The fact that one member of the EvD Team is based in Moscow and one is based in London should make it easier to coordinate schedules for interviews. The use of teleconferencing will also facilitate coordination for interviews.</li> <li>- Availability of documents only saved on team network directories. Access to relevant documents will be requested during interviews.</li> </ul>
	<p>The aggregate contribution of TC provided to support EBRD's operations in the Russian railway sector to achieving a transition impact at the strategic level by helping to influence the design and implement the Russian railway reform</p>	<p>The strategic programming of TC to support operations in the Russian railway sector (see Working Paper No. 2).</p> <p>A cogent explanation of why TC was not used after 2000 to support the</p>	<ul style="list-style-type: none"> <li>- TC portfolio analysis based on available statistics.</li> <li>- Case studies of two recent TCs</li> <li>- Interviews with EBRD staff in London and the Moscow Resident Office.</li> <li>- Related documentation available from teams and TC data basis.</li> </ul>	<ul style="list-style-type: none"> <li>- TC case studies for: (i) Institutional Development of First Freight Company (2009); and (ii) (iii) Regional Energy Efficiency Programme for the Corporate Sector-Germany-</li> </ul>	<ul style="list-style-type: none"> <li>- Not interviewing RZD officers and government officials involved in railway policy and regulatory matters on their use of TC results.</li> <li>- Most of the TCs were approved before 2000. There has been a loss of institutional memory because of staff turnover and weaknesses in the TC knowledge management system</li> </ul>

	<p>programme to support the transition to a competitive railway sector with an increasing role for the private sector.</p>	<p>EBRD's on-going policy dialogue.</p> <p>The results achieved by two recently approved TCs in in Russian railway sector.</p>		<p>D'Appolonia-RZD (2011).</p> <ul style="list-style-type: none"> <li>- TC databases</li> <li>- Documents provided by teams</li> <li>- Documents extracted from EBRD Databases</li> <li>- Key informant interviews in EBRD and the EBRD's Moscow Resident Office</li> </ul>	<p>and TC completion reports are available for only a few TCs. However, these early TCs were covered in the OPAV for the Railway Rehabilitation Project. Material in the EBRD files provides relatively complete coverage of the events surrounding the proposed Second Railway Reform Project. The evaluation team will broadly assess the strategic use of TC by analysing available statistical data and drawing on TC evaluation material in the Performance Evaluation Report for the Railway Modernisation Project. This information will be supplemented by case studies of two recently approved TCs.</p> <ul style="list-style-type: none"> <li>- Availability of documents only saved on team network directories. Access to relevant documents will be requested during interviews.</li> </ul>
	<p>The aggregate contribution of policy dialogue in the Russian railway sector to achieving a transition impact at the strategic level by helping to influence the design and implement the Russian railway reform programme to support the transition to a competitive railway sector with an increasing role for the private sector.</p>	<p>Evidence of sustained engagement by EBRD, supported by follow up, in undertaking policy dialogue.</p> <p>Evidence the EBRD's policy dialogue achieved results by helping to shape aspects of the Russian railway reform programme or to implement specific elements of the reform programme.</p>	<ul style="list-style-type: none"> <li>- Analysis of the Russian Railway Reform Programme in Working Paper No. 1</li> <li>- Board documents</li> <li>- Case studies undertaken for strategic policy dialogue undertaken related to the 2009 RZD Integrated Approach and EBRD's work to promote tariff harmonisation in the context of agreements made related to Russia's accession to the World Trade Organisation.</li> <li>- File review of the policy dialogue undertaken during the processing of the aborted Second Railway Modernisation Project.</li> <li>- OPAs/OPAVs</li> <li>- TIMS reports</li> <li>- Transition reports</li> <li>- Project monitoring reports</li> <li>- Interviews with EBRD staff in London and the Moscow Resident Office</li> </ul>	<ul style="list-style-type: none"> <li>- In addition to interviews and document reviews,</li> <li>- three policy dialogue case studies will be undertaken: (i) harmonising Russian rail tariff across all borders by 2014; (ii) policy dialogue related to the 2009 RZD integrated approach; and (iii) policy dialogue associated with the preparation of the aborted Second Railway Modernisation Project.</li> <li>- Assessment of EBRD's influence related to the TransContainer and</li> </ul>	<ul style="list-style-type: none"> <li>- Not interviewing RZD officers and government officials involved in railway policy and regulatory matters on EBRD's support for policy reforms.</li> <li>- Information related to policy dialogue is not readily extractable from EBRD systems. To compensate for this, the evaluation team will seek material that is available in documents only saved on teams J:drives, reports of policy dialogue undertaken by senior management, material related to Board information sessions and undertaking specific case studies.</li> <li>- Availability of key informants for interviews. The fact that one member of the evaluation team is based in Moscow and one is based in London</li> </ul>

			<ul style="list-style-type: none"> <li>– Interviews with private client companies</li> </ul>	<p>Freight One transactions in terms of influencing policy.</p> <ul style="list-style-type: none"> <li>– Documents extracted from EBRD Databases</li> <li>– Documents provided by teams</li> <li>– Key informant interviews in EBRD, the EBRD's Moscow Resident Office and private client companies</li> </ul>	<p>should make it easier to coordinate schedules for interviews. The use of teleconferencing will also facilitate coordination for interviews.</p>
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Evaluation question	Judgment criteria	Indicators	Sources of data	Collection methods	Potential limitations of data and means to address this
3. Did the EBRD's operations in the Russian railway sector show coherence and synergy in the use of EBRD's various instruments?	Evidence that projects, TCs and policy dialogue were used in a coordinated way to achieve synergies to achieve transition impacts by supporting the Russian railway reform programme.	Strategic linkages between, and synergies among, projects, TCs and policy dialogue	<ul style="list-style-type: none"> <li>– Analysis of the Russian Railway Reform Programme in Working Paper No. 1</li> <li>– Analysis of projects (see above)</li> <li>– Analysis of TCs (see above)</li> <li>– Analysis of policy dialogue (see above)</li> </ul>	<ul style="list-style-type: none"> <li>– Preparation of Working Papers Nos. 1 and 2.</li> <li>– Documents extracted from EBRD databases, case studies</li> <li>– Documents provided by teams</li> <li>– Key informant interviews (EBRD staff; Russian officials)</li> <li>– TC database</li> </ul>	<ul style="list-style-type: none"> <li>– Not interviewing RZD officers and government officials involved in railway policy and regulatory matters on EBRD's support for policy reforms.</li> <li>– Information related to policy dialogue is not readily extractable from EBRD systems. To compensate for this, the evaluation team will seek material that is available in documents only saved on team network directories, reports of policy dialogue undertaken by senior management, material related to Board information sessions and undertaking specific case studies.</li> </ul>
	Consistency of the projects, TCs and policy dialogue with the Russian country strategies and transport strategies.	Strategic linkages between, and synergies among, of projects, TCs and policy dialogue and the Russian country strategies and the transport strategies.	<ul style="list-style-type: none"> <li>– Analysis of projects (see above)</li> <li>– Analysis of TCs (see above)</li> <li>– Analysis of policy dialogue (see above)</li> </ul>	<ul style="list-style-type: none"> <li>– Preparation of Working Papers Nos. 1 and 2.</li> <li>– Documents extracted from EBRD Databases</li> <li>– Documents provided by teams</li> <li>– Key informant interviews</li> <li>– Case studies</li> <li>– TC databases</li> </ul>	<ul style="list-style-type: none"> <li>– A loss of institutional memory because of staff turnover and a loss of documents. To compensate for this the evaluation team will focus its analysis on the more current projects, TCs and policy dialogue and rely on OPAs/OPAVs for the older projects. Fortunately there were relatively few Russian railway projects approved in the 1990s and many have been approved in 2007 or later and the Railway modernisation Projects has been the subject of a comprehensive project performance evaluation and material is available in EBRD files on the proposed Second Railway Rehabilitation Project.</li> </ul>