



RAILWAY REFORMS IN WB6 COUNTRIES

CASE STUDY: WORLD BANK SUPPORT TO SERBIA Transport Global Practice

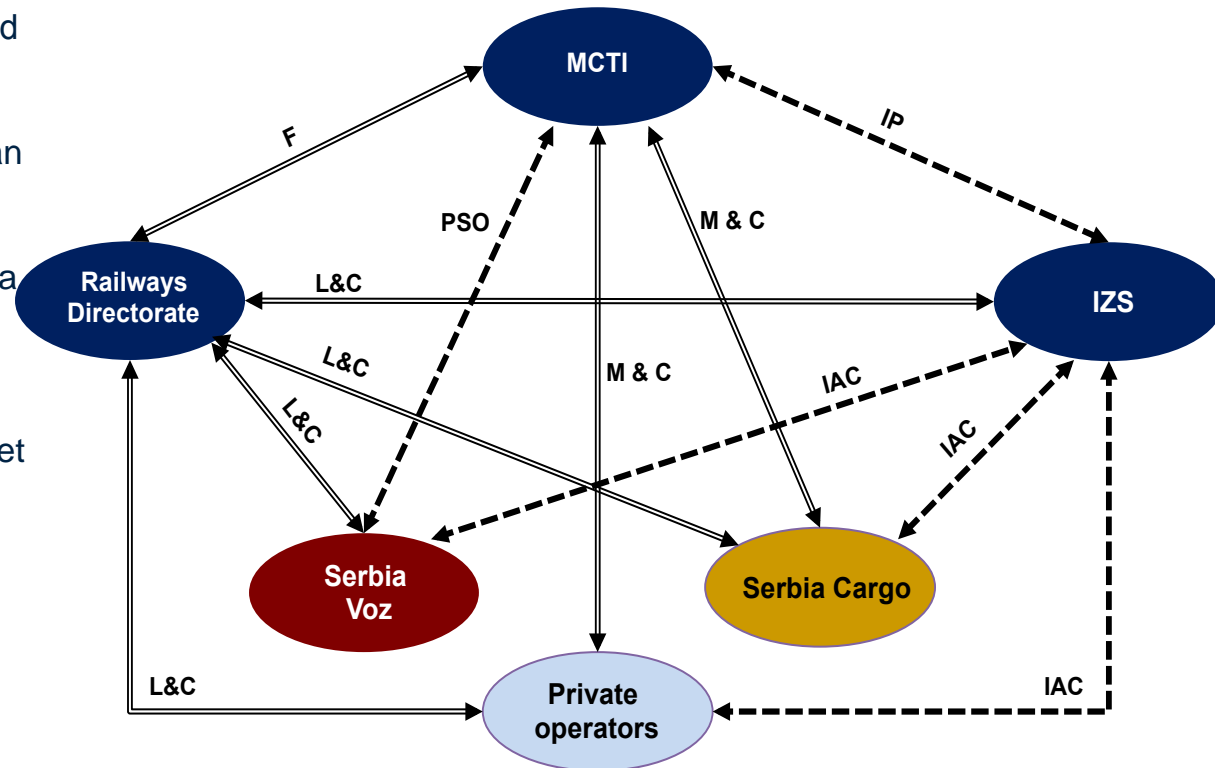
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The Government of Serbia is well on the way to embed its ongoing and comprehensive EU-compliant railway reform

The Government of Serbia ('GoS'), supported by the World Bank, transformed its vertically integrated railway (JSC Serbian Railways) into three operational companies – IZS, Serbia Voz and Serbia Cargo.

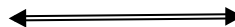
The GoS also introduced an EU-compliant set of institutional relationships in through three key mechanisms – Infrastructure Access Charging ('IAC'), Public Service Obligation ('PSO'), Infrastructure Performance ('IP') contracts.

The institutional structure for the sector is complemented with the Railways Directorate ('RD'), as the railway safety and economic regulatory body.



Legend:

Institutional interface



- F funding
- M & C monitoring and control
- L & C licensing and certification (regulation)

Contractual interface



- IAC infrastructure access charging contract
- IP infrastructure performance contract
- PSO Public Service Obligation contract

The GoS drives the reform but the railway companies execute their own reform-related actions

The three railway operational companies, established in August 2015, completed their third full financial year as independent companies, with all of them producing IFRS-compliant annual financial reports.

As part of a considerable corporate reform effort by the companies themselves, several major milestones have been achieved:

- Labour retrenchment is completed in two waves, in 2016 and 2017, and in line with the GoS's commitments towards the IMF.
- The annual operational support to the railway sector during the period 2016-2018, which included the Infrastructure and the Public Service Obligation contracts, remains within the level agreed with the IMF.
- Restructuring of commercial debt is completed with the debt allocated to the two operating companies. Debt restructuring plans have either been agreed with or are under consideration by the railway companies' creditors.
- Two State-owned railway operators made inroads towards commercial management of operations and completed several successful rounds of asset disposal of surplus assets. This generated a total of EUR 6.0 million (Cargo EUR 4.33 million and Voz EUR 1.68 million).
- There are 7 private railway operators on the network in Serbia.

The completed reform work resulted in the overall reduction of GoS' support to the railway companies, restructuring of railway assets and liabilities, and rightsizing of railways' operations

		2015	2016	2017	2018
GoS support to the rail sector	Direct support (RSD million)	10,700	10,750	10,850	10,720
	Approved loss (RSD million)	6,000	3,770	2,630	530
	Total support (RSD million)	16,700	14,520	13,480	11,250
Infrastructure	Network size (km)	3,143	3,143	2,474	2,474
	Passenger train-km ('000s)	10,606	10,078	10,737	9,039
	Freight train-km ('000s)	5,600	5,321	5,669	6,401
Passenger services	Passenger-km (million)	N/A	447	379	367
	Passengers ('000s)	N/A	6,137	5,623	5,161
Freight services	Tonne-km (million)	N/A	3,053	3,316	3,142
	Tonnes ('000s)	N/A	11,681	12,522	12,252
Headcount	Railway companies	16,647	13,646	11,633	10,492

Commentary on items marked*:

Historically, infrastructure investment programmes on the Serbian network were not driven by the real needs but by the combination of GoS' "affordability" and infrastructure manager's relatively limited capacity to efficiently execute concurrent projects the investment (i.e. low "absorption rate"). As a result, the infrastructure manager had to extend the asset life well beyond the economic and technical limits, across many asset groups. As a result, the GoS is executing a significant programme of renewals which has a negative short term impact on the scope of railway operations across the network.

Next steps

Recently completed work in the Serbian railway sector by the World Bank established that (1) performance of the infrastructure company is the key enabler of growth in railway traffic volumes and (2) railway operators' needs have yet to be reflected in the planning of infrastructure operations and investments.

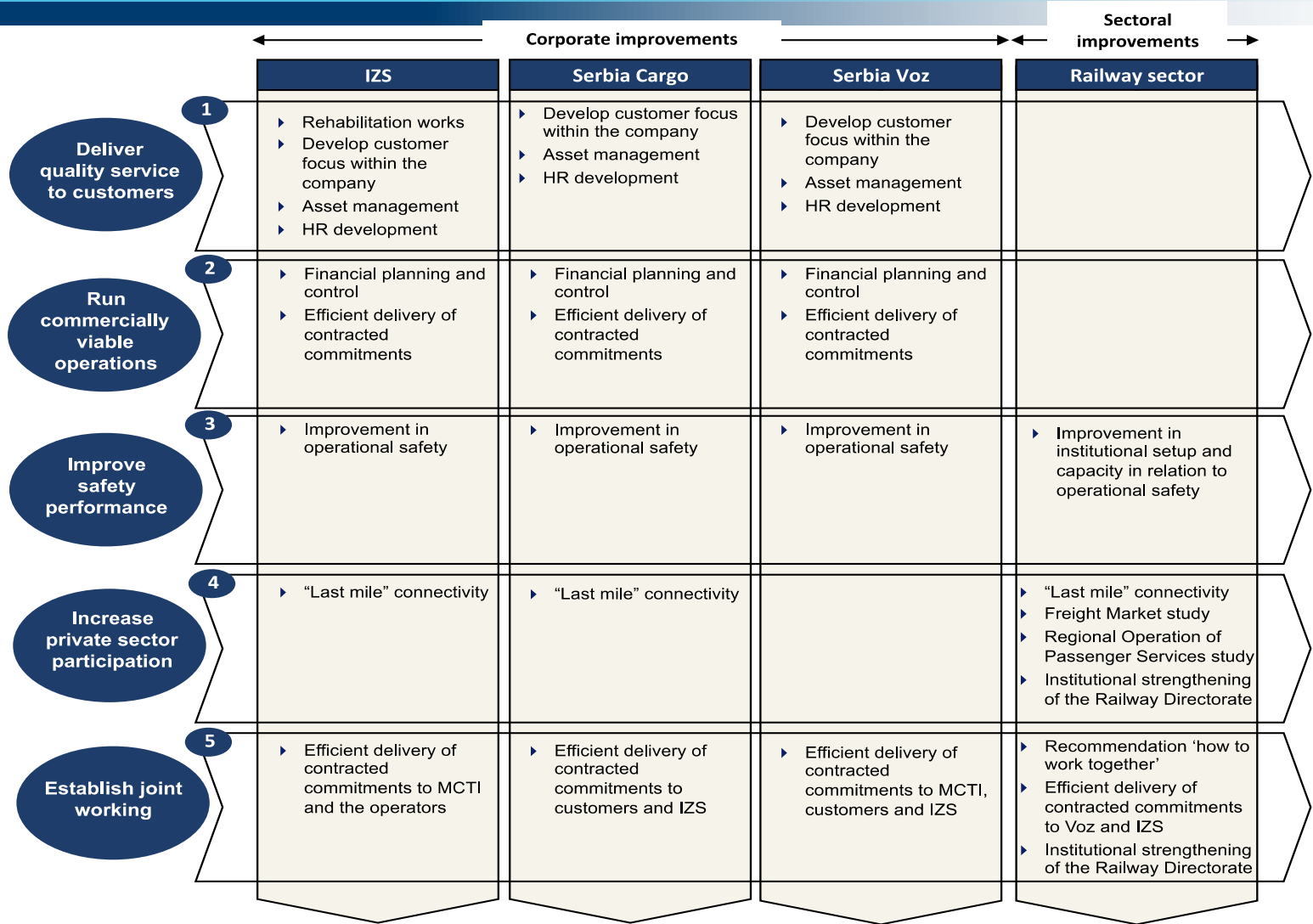
Through considerable investment in its rail sector, the GoS implicitly wishes to continue to support the rail services, in order that the country should have a reliable rail system, which enables and generates growth in the economy.

Over the next 5-7 years, the GoS aims to facilitate a significant “shift to rail” and achieve the “best value* for money” from its railway system. In an attempt to embed its railway reform work so far and develop a sustainable base for the future, the GoS is now looking to simultaneously:

- drive out **institutional** inefficiency by setting up a railway sector comprising of companies with a clear and manageable set of contractual arrangements between them;
- fine-tune its focus on the railway companies to create an environment in which each company is incentivised to drive out its own **corporate** inefficiencies while working towards corporate commercial objectives that are consistent with those of the GoS.

* *Value* – the degree to which the GoS' are achieved and *Money* – the net cost to GoS of achieving those objectives

Through the Railway Improvement Framework devised as part of the MPA initiative, the World Bank continues to support the GoS with the railway reform work



Market responsive railway companies demonstrate efficient stewardship of public assets

Rail sector institutions supportive of competitive market operations