

ASIAN DEVELOPMENT BANK

PPA: BAN 24000

PROGRAM PERFORMANCE AUDIT REPORT

ON THE

**RAILWAY RECOVERY PROGRAM
(Loan 1310-BAN)**

IN

BANGLADESH

August 2002

CURRENCY EQUIVALENTS

Currency Unit – taka (Tk)

At Reappraisal (Dec 1992)		At Release of Second Tranche (Mar 1996)	At Program Completion (Jun 1998)	At Operations Evaluation (Mar 2002)
Tk1.00	=	\$0.0245	\$0.0226	\$0.0175
\$1.00	=	Tk40.75	Tk44.20	Tk57.00

ABBREVIATIONS

ADB	–	Asian Development Bank
BG	–	broad-gauge
BR	–	Bangladesh Railway
BRA	–	Bangladesh Railway Authority
MG	–	meter-gauge
MOC	–	Ministry of Communication
OEM	–	Operations Evaluation Mission
PCR	–	program completion report
PSO	–	public service obligation
RRP	–	Report and Recommendation of the President
SDR	–	special drawing rights
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government and the executing agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends.
- (ii) In this report, "\$" refers to US dollars.

CONTENTS

	Page
BASIC DATA	ii
EXECUTIVE SUMMARY	iii
MAP	vi
 I. BACKGROUND	 1
A. Rationale	1
B. Formulation	2
C. Objectives and Scope	3
D. Financing Arrangements	3
E. Coordination Among Development Agencies	4
F. Program Completion Report	4
G. Operations Evaluation	5
 II. IMPLEMENTATION PERFORMANCE	 5
A. Effectiveness of Design	5
B. Implementation of Policy and Institutional Measures	6
C. Management of the Program	10
 III. PROGRAM RESULTS	 12
A. Performance Indicators	12
B. Impacts of Policies	12
C. Institutional Development	14
D. Socioeconomic Impacts	14
E. Environmental Impacts	14
F. Sustainability	15
 IV. OVERALL ASSESSMENT	 15
 V. KEY ISSUES, LESSONS, AND FOLLOW-UP ACTIONS	 16
A. Key Issues	16
B. Lessons Learned	17
C. Follow-Up Actions and Recommendations	18
 APPENDIXES	
1. Policy Matrix and Compliance Status	20
2. Bangladesh Railway: Income and Expense Summary	27
3. Operating Revenue and Cost Breakdown	28
4. Organization Chart of Bangladesh Railway	33
5. Freight Traffic of Bangladesh Railway in FY2000	34
6. Investment in Infrastructure and Rolling Stock During the Fifth 5-Year Plan	35

BASIC DATA

PROGRAM PREPARATION, IMPLEMENTATION, AND INSTITUTION BUILDING

TA No.	Technical Assistance Name	Type	Person-Months	Amount (\$)	Approval Date
1295	Railway Sector Analysis	PPTA	8	100,000	27 Apr 1990
1336	Railway Institutional Development	ADTA	4	100,000	11 Jul 1990
1717	Preparation of the Railway Recovery Program Loan	PPTA	8	100,000	18 Jun 1992
1819	Organizational Reform of Bangladesh Railway	ADTA	41	1,500,000	22 Dec 1992
2230	Monitoring of Policy Reforms Under the Railway Recovery Program Loan	ADTA	5	100,000	9 Dec 1994
2544	Organizational Reform of Bangladesh Railway (Phase II)	ADTA	79	1,000,000	21 Mar 1996

KEY PROGRAM DATA (\$ million)

	As per ADB Loan Documents	Actual
ADB Loan Amount/Utilization	80.0	85.6

KEY DATES

	Expected	Actual
Fact-Finding		08–28 Jun 1990
Appraisal		31 Aug–20 Sep 1990
Reappraisal		24 Nov–11 Dec 1992
Loan Negotiations		03–06 Mar 1993
Board Approval		08 Sep 1994
Loan Agreement		20 Sep 1994
Loan Effectiveness	20 Jun 1994	20 Oct 1994
First Tranche Release		28 Oct 1994
Second Tranche Release		7 Mar 1996
Loan Closing	30 Jun 1996	30 Jun 1996
Months (effectiveness to completion)	24	20

BORROWER People's Republic of Bangladesh

EXECUTING AGENCIES Bangladesh Bank
Ministry of Communication

MISSION DATA

	No. of Missions	Person-Days
Reconnaissance	1	95
Fact-Finding	1	126
Appraisal	1	75
Consultation	7	48
Reappraisal	1	126
Follow-Up Reappraisal	1	8
Program Administration		
Review	6	50
Special Loan Administration	3	21
Program Completion	1	10
Operations Evaluation ¹	1	24

ADB = Asian Development Bank, ADTA = advisory technical assistance, PPTA = project preparatory technical assistance, TA = technical assistance.

¹ Operations Evaluation Mission comprised C. C. Yu, Evaluation Specialist and Mission Leader; A. Faruque, Project Implementation Officer, Bangladesh Resident Mission; and J. Winner, staff consultant.

EXECUTIVE SUMMARY

Between 1971 and 1990, demand for mechanized modes of transport in Bangladesh increased at 6% per annum for passenger traffic and 5% per annum for freight traffic. This overall growth, however, was accompanied by a steady decline in the proportion of traffic carried by the railway, from 20% to 12% for freight traffic. There was a significant shift toward road transport, with its share in freight traffic rising from 52% to 63%. Growing dissatisfaction among customers and passengers was evident with the railway services. Bangladesh Railway (BR) incurred major financial losses and became a burden on the Government's budget.

Processing of the Railway Recovery Program (the Program) took more than 4 years, with four technical assistance (TA) grants allocated for its preparation, and intense policy dialogue carried out between the Government and the Asian Development Bank (ADB) on the reform framework and specific reform measures. On 8 September 1994, the Board approved the Program for SDR58.135 million (about \$80 million equivalent at the time of approval) from ADB's Special Funds resources, to be disbursed in two tranches of 60% and 40%. The Program had two interrelated objectives: (i) to restore and sustain BR's financial viability, and (ii) to restructure it to make it more responsive to the demands of the transport market. The Program was designed to enable BR to break even against working expenses by FY1994 and to fully recover working expenses and depreciation by FY1997. To achieve the two objectives, the Program was to cover five major policy reform areas, namely deficit reduction, termination of open-ended subsidies and introduction of a public service obligation (PSO) policy, labor rationalization, organizational reforms, and investment program rationalization. The loan proceeds were to be used for defraying the costs of adjustments, including the voluntary separation program for approximately 20,000 workers, organizational reforms, and rehabilitation of worn-out assets.

A total of 34 conditions were included in the policy matrix: 8 for the first tranche release and 26 for the second tranche release. In practice, however, ADB's insistence that the Government demonstrate its commitment by implementing some of the key reform measures, including reduction of 20,000 workers, resulted in 21 conditions having been complied with before loan approval, including 13 that had originally been designated as second-tranche conditions. At the time of completion, ADB determined that the Government had met 11 out of 13 remaining conditions for releasing the second tranche. One condition, increasing passenger fare by 10% yearly, was regarded as counterproductive in view of increasing competition from road transport. The other condition, yearly reduction of PSO compensation by 15% in real terms over PSO's first 4 years, was partly met with a reduction of 3% achieved from FY1994 to FY1995. Both conditions were waived and the second tranche was released in March 1996. Actual total disbursement amounted to \$85.6 million. About \$65 million equivalent counterpart funds generated from the loan proceeds were used to reimburse the costs of the voluntary separation program for the 20,000 retrenched workers. The balance was credited to the general budget of the Government.

The first objective of breaking even against working expenses was achieved in the second half of the 1990s but the results were short-lived. Since FY2000, the gap between total revenue and working expenses has again increased sharply.

The intention of the Program in introducing PSO policy was to make government subsidies explicit and, in doing so, gradually terminate open-ended subsidies. The Government would only pay for those railway services that were deemed socially desirable but were not

commercially profitable. Those unprofitable lines not covered by PSO would have to be shed. A PSO mechanism was introduced under the Program. However, the target of a 15% annual reduction of PSO in real terms over the first 4 years of its implementation was not achieved; it was later revised by agreeing under the Jamuna Bridge Railway Link Project to keep PSO compensation constant in nominal terms. BR's noncommercial accounting practices do not allow estimation of the cost of operating train services. Although a special study was commissioned to estimate such costs, the fixed PSO amount bears a weak relationship to the actual costs of train operations, and there is no clear distinction between commercial lines and lines covered by PSO. BR remains an item on the Government's budget, and the Government is obliged to cover BR's deficits in any event. Therefore, the introduction of PSO has not achieved its intended purpose.

Under the Program, the total number of staff at BR was reduced from a high of 56,700 in FY1991 to 36,600 in FY2001. As a result, labor cost as a percentage of the total working expenses was reduced from 50% to approximately 44%, even though labor cost rose in absolute terms due to general salary increases for all government employees.

The organizational reforms were designed to separate BR from the Ministry of Communication and to structure it along commercial lines. Despite the creation of some new departments and restructuring of some existing departments, BR has made limited progress toward becoming a true commercial entity. A marketing cell has been established and made responsible for both passenger and freight marketing activities. Part of its responsibility is to revise tariffs, although it is not clear what the basis for tariff adjustments is, as accurate cost information is not available, and any tariff increase above 10% within a fiscal year has to be approved by the Government through the railway board. This board, known as the Bangladesh Railway Authority, was created in 1996, is chaired by the Minister of Communication and comprises primarily officials from various ministries. The board has met 19 times since its creation but plays a minor role in key business decision-making such as budget and investments. Although a customer liaison committee is said to be functioning, interviews with key customers indicated that customer consultations rarely took place.

The investment rationalization aimed to improve BR's asset performance by controlling capital expenditure and by ensuring that investments are targeted at areas that have clear commercial justification. The total capital expenditure for the fifth 5-Year Plan (FY1998–FY2002) is about Tk25 billion, Tk15 billion of which is planned for building a railway link over the Jamuna Bridge with ADB funding and the remaining Tk10 billion for other projects, roughly in line with that for the fourth 5-Year Plan as required by the Program. The railway link project is critical for BR's long-term viability. Most other projects financed are related to rehabilitation of existing facilities, and are also commercially justified. Despite the investments, it is clear that many worn-out productive assets cannot be rehabilitated or replaced due to lack of funds.

A series of operational, financial, and macroeconomic indicators have been used to assess the Program's impacts on the reform process, the real economy, external indebtedness, advancement of sector goals, and an enabling environment for the private sector. The results indicate that impacts were evident in some cases but mostly short-lived. As an example, both freight and passenger traffic, as well as per employee productivity, started to rise moderately after the completion of the Program, but the freight traffic has once again declined since FY1999, mostly losing to road transport. Cash injection from the Government, including PSO, welfare grants, and other open-ended subsidies but excluding investments, started to fall in FY1996 and reached a low in FY1998 before climbing back to a record high in FY2001. The contribution of the Program to the Government's external indebtedness is considered moderate.

Private sector participation has occurred, but is confined to ticketing and onboard train services in passenger trains, computerized ticketing, fiber optic telecommunications network, and refurbishment of passenger coaches.

In general, the Program was consistent with ADB's operational strategy for the country and the sector at the time, and it temporarily achieved its first objective of breaking even against working expenses. The lack of sustainability has been due to the diminishing commitment to reforms by the successive Governments and BR leadership, as well as the mismatch between the first objective and the policy and institutional measures prescribed (in that even if all the measures were implemented, breaking even may still not be achieved). The Program's second objective, to make BR more commercially oriented, has largely not been achieved. The main component of the Program, labor retrenchment, appears to be efficient in that \$65 million used to pay for the separation packages has resulted in an annual saving in salaries of approximately \$12 million. The Program's social and institutional impacts have been mixed but generally moderate. Overall, the Program is rated partly successful.

The main lesson to be learned is that a large and stable number of change agents at all levels but particularly at the top is a necessary precondition for the success of reforms, and that ADB should assess the strength of such change agents for future program loans. With respect to program design and implementation, first, the blueprint target-oriented approach has failed to generate incentive to continue reforms after the Program's completion. Future program design should be more result oriented by seeking the accomplishment of intended objectives rather than outputs. Second, as the Program was approved after the completion of the labor retrenchment program, the condition on providing counseling and information services to the retrenched workers was not implemented. This was partly responsible for the fact that some retrenched workers have used up the funds without successfully starting a new career and, thus, face uncertain prospects. Third, a program loan as a lending modality may have been inadequate in achieving and sustaining the Program's objective of breaking even against working expenses, since BR faces many additional physical constraints such as aging fleet, two-gauge system, and lack of connection between the east and west zones. In this regard, a sector development program, a modality introduced by ADB in 1996, may have been more effective by addressing policy, institutional, and physical constraints in a holistic manner.

As a follow-up action, ADB should continue its policy dialogue, particularly through its Bangladesh Resident Mission, to implement agreed reforms before considering further assistance to BR. To halt BR's decline, the Government should take immediate and concrete actions toward BR's corporatization. The most important step is to minimize interference with BR's business operations and decision-making, which can be partly achieved through increasing private sector representation in the Bangladesh Railway Authority. The Government should also remove BR as a line item from its budget, terminating all open-ended subsidies. BR should urgently improve its accounting practices in order to generate information on costs and revenues for its operations, as without such information, any discussions on furthering commercial reforms will be futile. BR may then negotiate with the Government on the total PSO amount based on such information, and focus only on profitable routes (e.g., the Dhaka-Chittagong passenger and container markets), plus routes covered by PSO, and shed all other routes. Finally, BR should continue to monitor the livelihood of the 20,000 retrenched workers and extend necessary assistance.



I. BACKGROUND

1. The transport system in Bangladesh consists of roads, railways, inland waterways, shipping, and civil aviation. The natural environment, with rivers subject to periodic flooding and running from the north to south, poses considerable challenges to land transport services, particularly for east-west movement. Railways in Bangladesh face the additional challenge of operating two different gauges¹ and lacking physical linkage between two systems, though the situation will be improved with the completion of the Jamuna railway link in 2003. In the early 1990s, railways (dominated by long-haul freight traffic) were operated by the public sector, whereas road transport, which played a significant and increasing role in short-haul traffic, was mostly handled by the private sector.

A. Rationale

2. Between 1971 and 1990, demand for mechanized modes of transport increased at 6% and 5% per annum for passenger and freight traffic, respectively. This overall growth, however, was accompanied by a steady decline in the proportion of traffic carried by the railway, from 20% to 12% in the case of freight traffic. A significant shift toward road transport occurred with its share in freight traffic rising from 52% to 63%. Inland waterway transport, which took the rest, experienced a slight relative decline. Growing dissatisfaction among customers and passengers was evident with the railway services. According to a survey conducted by Asian Development Bank (ADB) consultants, services were viewed as slow, unreliable, subject to heavy loss through theft, rather inflexible, and sometimes not price competitive.²

3. During the period of the third and the fourth 5-year plans (FY1986–FY1990 and FY1991–FY1995), the Government's transport sector policy encouraged greater private sector participation in the provision of services, better utilization of existing transport facilities, and greater use of market-based mechanisms to improve system capacity and efficiency. ADB's operational strategy in the railway sector at the time rested on the recognition that, though in relative decline, railway remained an important means of transport in the country. The thrust of the strategy was to support the Government's efforts to consolidate and expand the core business of Bangladesh Railway (BR), thereby harnessing the railway's potential in supporting economic development, which lies in carrying bulk traffic over long distance. To achieve this goal, ADB recognized that a comprehensive reform program should be implemented, and ADB's assistance would best act as a catalyst to bring about further market-oriented reforms in the railway sector.

4. BR was recognized as causing major financial losses and as a burden to the Government's budget. Total government subsidy (excluding investment) accounted for approximately 0.5% of total governmental expenditure in the late 1980s. The Government, despite the burden, was reluctant to relinquish its direct control of BR as the railway was perceived to be the "poor man's transport." Suffering from chronic under-investment and poor management, BR was one of the world's worst performers in terms of per employee productivity as well as track and engine usage (i.e., about 10% to 20% of those of the People's Republic of China and India).

¹ Western Bangladesh uses predominantly the broad-gauge (BG, about 1.67 meters) railway track, which connects with the railway network of northeastern India, while the eastern part of the country uses meter-gauge (MG) track.

² ADB. 1990. *Technical Assistance to Bangladesh for Railway Sector Analysis*. Manila.

5. The Railway Recovery Program (the Program)³ was designed to support the Government's macroeconomic stabilization program, which, among other goals, aimed at restructuring many public enterprises suffering from severe inefficiency, weak management, and overstaffing. The program loan modality was chosen as the main vehicle for facilitating policy and institutional reforms due to its strong focus on policy and institutional changes compared to railway project or sector loans, which were simultaneously provided by several bilateral and multilateral agencies. The success or otherwise of these physical investment projects was regarded as very much hinging upon a more efficient and commercially oriented BR.

B. Formulation

6. The inputs that went into the preparation and formulation of the Program were intensive. Among the six technical assistance (TA) grants allocated in connection with the Program,⁴ the first four were for activities related to its preparation. The processing of the Program took more than 4 years between the completion of fact-finding (June 1990) and Board approval in September 1994. Several factors contributed to the unusually long processing time. First, ADB insisted that the Government demonstrate its commitment by implementing some key reform measures proposed as the conditions for releasing the first tranche (e.g., starting of the retrenchment program, establishing a marketing cell, acceptance of staffing target of 40,000). The second factor involved two other ongoing program loans in the agricultural and industrial sectors for which compliance with conditions was slow.⁵ ADB effectively applied cross-conditionalities to the Program by insisting that substantial progress in the other two program loans be made in a manner satisfactory to ADB before the processing of the Program could be continued. Finally, the change of Government in 1991 necessitated more time in order for the new Government to review the policy agenda before final agreement could be reached.

7. As reflected in the scope of the first four TAs, ADB carried out a thorough analysis of the railway sector and BR's operational and financial performance, and identified the most urgent areas that needed to be reformed. These areas included labor rationalization, curtailing of ticketless travel, tariff adjustments, shedding of unremunerative lines or compensation by the Government to finance such lines through an explicit subsidy contract under a public service obligation (PSO) contract, and reorganization of BR's freight and passenger marketing functions. Government acceptance of these matters as top priorities was not easily achieved; gaining the commitment by the Government to take concrete actions proved to be even more difficult. In addition to the four supporting TAs, there were 12 missions during loan formulation. The long and consistent policy dialogue with successive governments resulted in a gradual shift in the attitude toward reforms. Initially, the Government, while in agreement with the general principle of market-oriented reforms for BR and the railway sector, saw many difficulties with the proposed reform package and felt that ADB was asking it to accomplish too much, especially in reducing staff and closing unprofitable lines. However, in the end, not only was an agreement reached on a broad market-oriented sector strategy and policy and institutional reform

³ ADB. 1994. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Bangladesh for the Railway Recovery Program*. Manila.

⁴ ADB. 1990. *Technical Assistance to Bangladesh for Railway Sector Analysis*. Manila; ADB. 1990. *Technical Assistance to Bangladesh for Railway Institutional Development*. Manila; ADB. 1992. *Technical Assistance to Bangladesh for Preparation of the Railway Recovery Program Loan*. Manila; ADB. 1992. *Technical Assistance to Bangladesh for Organizational Reform of Bangladesh Railway*. Manila; ADB. 1994. *Technical Assistance to Bangladesh for Monitoring of Policy Reforms under the Railway Recovery Program*. Manila; and ADB. 1996. *Technical Assistance to Bangladesh for Organizational Reform of Bangladesh Railway – Phase II*. Manila.

⁵ ADB. 1990. *Project Completion Report on the Food Crops Development Program in Bangladesh*. Manila; and ADB. 1991. *Project Completion Report on the Second Industrial Program in Bangladesh*. Manila.

framework, but the Government was also able to take concrete steps in implementing some of the key reform measures under the Program, including labor reduction, before loan approval.

C. Objectives and Scope

8. The Program had two interrelated objectives: (i) to restore and sustain BR's financial viability, and (ii) to restructure BR to make it more responsive to the demands of the transport market. The Program was formulated to enable BR to break even against working expenses by FY1994 and fully recover working expenses and depreciation by the end of FY1997.

9. To achieve the objectives, the Program was to cover five major policy reform areas:

- (i) **Deficit Reduction.** As regards the break-even targets, a series of measures were prescribed including greater authority for BR to adjust its fares, upward adjustment of passenger fares by 10% per annum during the program period, shedding of uneconomical short-distance freight and passenger services, sale of land and other redundant assets, drive to reduce ticketless passenger travel, and other measures.
- (ii) **Termination of Open-Ended Subsidies and Introduction of a PSO Policy.** As an important public utility, BR was traditionally obliged by the Government to provide certain unremunerative social services. The traditional open-ended subsidies became increasingly unsustainable due to BR's mounting deficits and competition from other modes of transport. A PSO policy was to be introduced to cover (from the Government's budget) obligations that BR would not assume based on its own commercial interests. The underlying rationale for a fully implemented PSO contract was that the Government would only cover the costs of operating such lines, and those lines that were unprofitable and not covered by PSO would have to be closed, thereby eliminating open-ended subsidies.
- (iii) **Labor Rationalization.** Staff numbers were to be reduced from approximately 60,000 to about 40,000 in order to curtail employee costs, which had been growing at 15% per annum compared with the 5% per annum growth in revenues. Rationalization measures included properly identifying skill needs, a freeze on recruitment, natural attrition, and voluntary separation with adequate severance payment.
- (iv) **Organizational Reforms.** A comprehensive corporate plan was to be implemented to transform BR into a viable and market-responsive organization with managerial, financial, and administrative autonomy and full public accountability.
- (v) **Investment Rationalization.** Decisive action was to be taken to control capital expenditures and to ensure that investments were targeted in areas that have clear commercial justification.

D. Financing Arrangements

10. A total of SDR58.135 million (about \$80 million equivalent at the time of approval) from ADB's Special Funds resources was allocated to finance the Program, to be disbursed in two tranches of 60% and 40%. The release of the tranches was conditional on the implementation of

agreed measures. The loan proceeds were to be utilized by the Government to finance costs associated with the staff reduction program (estimated at \$52 million to \$75 million), BR's organizational restructuring (\$5 million), and deferred overhaul and rehabilitation works (\$20 million). There was no cofinancing for the Program. The adjustment cost estimation was based mainly on a formula for calculating compensation amounts for the voluntary separation program, taking account of the length of qualifying service for pension, and the target of retrenching 20,000 employees.

E. Coordination Among Development Agencies

11. ADB's coordination with other bilateral and multilateral development agencies was intense during the processing of the Program. Five coordination meetings were held at the Bangladesh Resident Mission, attended by development agencies representing Canada, Denmark, France, Germany, Norway, United Kingdom, and United States, as well as the United Nations Development Programme and the World Bank. A general consensus emerged from these meetings pertaining to the drain on the Government's budget by the railway sector, the central role of BR in the railway sector, and the need for fundamental reforms in the railway sector in order to improve its performance and reduce its burden on the Government budget. The institutional and policy reforms pursued by the Program were intended to help the execution and operation of physical investment projects financed by different aid agencies.

F. Program Completion Report

12. The program completion report (PCR), circulated in December 1999, reported that the Government fully met 24 out of 26 conditions for releasing the second tranche, but made no mention of the status of the first-tranche conditions.⁶ One of the remaining second-tranche conditions, increasing passenger fares by 10% yearly, was partly complied with (an upward adjustment of the tariff for intercity passenger trains effective May 1998), but further fare increase was deemed counterproductive in view of increasing competition from road transport.⁷ The other condition, yearly reduction of PSO compensation by 15% in real terms over the first 4 years of its implementation,⁸ was partly met with a reduction of 3% achieved from FY1994 to FY1995. Both conditions were waived with respect to releasing the second tranche based on the (i) complete fulfillment of other conditions and, in some cases, overachievement under the Program; (ii) improvement of the fiscal deficit; and (iii) prevailing conditions in Bangladesh. The second tranche was released on 7 March 1996 on schedule. The PCR noted that BR had been reorganized along commercial lines and a new business-oriented organization had been established under the Program. It rated the Program as generally successful and attributed the success partly to ADB's insistence that the Government demonstrate strong commitment to the Program and meet major conditions before loan negotiations. Although there was no major regression of the Program's achievement at the time, with hindsight, the PCR was overly optimistic as to the sustainability of the results and impacts of the Program.

⁶ Compliance with first-tranche conditions was partly reported in the Report and Recommendation of the President due to the fact that many of the conditions had already been implemented before loan approval.

⁷ In other words, the fare increase would reduce the demand to the extent that total passenger revenue would fall, or cross-elasticity of demand for railway was higher than minus one in absolute value.

⁸ The policy matrix did not specify the timeframe for this condition but the Loan Agreement specified it as "over the PSO's first four years."

G. Operations Evaluation

13. This program performance audit report focuses on the relevance, design, implementation, and overall impact of the Program and presents the findings of the Operations Evaluation Mission (OEM), which visited Bangladesh in March 2002. The report is based on a review of the appraisal and reappraisal back-to-office reports, Report and Recommendation of the President, materials in ADB files, and on discussions with ADB staff, the executing agencies, BR and its key customers and competitors, representatives of the retrenched staff, private sector representatives, and development agencies. Copies of the draft report were provided to the Government, BR, and ADB staff for review. All comments received have been considered in finalizing this report.⁹

II. IMPLEMENTATION PERFORMANCE

A. Effectiveness of Design

14. Overall, the Program's objective of setting a course for market-oriented reform for BR was appropriate. The scope of the Program, which covered key aspects including deficit reduction, making subsidy transparent, labor rationalization, organizational restructuring, and investment rationalization, was comprehensive. However, the Program appeared to have several design flaws that prevented it from fully achieving its key objective and sustaining the results. First, the Program prescribed a large number of policy, institutional, and other measures: 8 for the first tranche release and 26 for the second tranche release. The total number of conditionalities, though large, was manageable and practical. The tranching of the conditionalities, however, was not implemented as originally formulated. ADB's insistence that the Government demonstrate its commitment by implementing some of the key reform measures, including reduction of 20,000 workers, resulted in 21 conditions having been complied with before loan approval, including 13 that had originally been designated as second-tranche conditions. The main deficiency of the design was that it did not provide incentive for continuing reforms after the measures were implemented. Second, the main objective, i.e., to restore BR's financial viability through breaking even against working expenses, was briefly achieved but the results were not sustained. A mismatch appears to be evident between the objective of breaking even and the policy and institutional measures prescribed by the Program in that even if all the measures were implemented, breaking even may still not be achieved. In particular, insufficient account was evidently taken of the impacts of BR continuing to face many inherent physical constraints including aging fleet, lack of connection between the east and west zones, and a two-gauge system.¹⁰ Third, certain measures (e.g., reduction of staff) had already been implemented before loan approval. Consequently, the conditions related to the voluntary separation program, such as providing out-counseling and advisory services to all applicants, were not complied with.¹¹ This omission has had major impacts on the livelihood of the 20,000 retrenched workers.

⁹ Copies of the draft report were forwarded to the Government and BR on 31 May 2002 with a request that comments be provided by 27 June 2002. Although the request was followed up subsequently, no comments were received; it is, therefore, assumed that neither the Government nor BR wishes to comment on the report.

¹⁰ However, ADB has been actively providing support to BR separately in recognition of some of these problems. See *Technical Assistance to Bangladesh for Organizational Reform of Bangladesh Railway – Phase II* (footnote 4); ADB. 1994. *Report and Recommendation of the President on a Proposed Loan to Bangladesh for the Jamuna Bridge*. Manila; and ADB. 1997. *Report and Recommendation of the President on a Proposed Loan to Bangladesh for the Jamuna Bridge Railway Link Project*. Manila.

¹¹ This was contrary to what was stated in the Report and Recommendation of the President.

B. Implementation of Policy and Institutional Measures

15. The PCR noted that, at the time of completion, the Government had met 24 out of 26 conditions for releasing the second tranche, and the remaining two had been partly met and waived. The OEM's findings reveal that, while most of the conditions implemented have remained in place, there has been deterioration in BR's overall financial performance away from the Program's objective. Appendix 1 provides an update on the status of compliance with all 34 conditions in the policy matrix compared to that of the PCR. Paras. 16–26 summarize the major accomplishments of the Program in each of the five reform areas.

1. Deficit Reduction

16. The majority of the policy and institutional measures under the Program were designed to reduce BR's operating deficit by cutting expenses and increasing revenue, directly and indirectly. The direct measures included, among others, tightening control on ticketless travelers, better commercial use of land and sale of land not needed, full recovery of electricity charges from staff, withdrawal of preferential rates applied to postal and military traffic, delegation of authority to BR to periodically adjust fares and freight rates, upward adjustment of passenger fares, and reduction of total staff number to 40,000. First, for ticketless travel, which some estimated at about 40% prior to the Program, data provided by BR on its passenger revenue and the OEM's own observation suggest that it has been decreasing. For intercity trains, e.g., Dhaka-Chittagong, the onboard services including ticketing have been contracted to private operators, who have been highly effective in controlling ticketless travel. A newly installed electronic ticketing system minimizes the chances that multiple passengers have tickets with the same seat number. All these measures have contributed to reducing ticketless travel for intercity trains to a nearly negligible level. The situation is much less satisfactory for local trains for which a large number of riders are often observable on rooftops. Overall, the earning from passenger traffic has increased by 56% from Tk1.00 billion in FY1997 to Tk1.56 billion in FY2001. Second, revenue from licensees of railway land has increased from Tk64 million in FY1993 to Tk105 million in FY2001. Full recovery of electricity charges from BR staff has been in place since 1992, terminating the previous policy of charging staff a fixed percentage of the basic salary for household electricity consumption. Preferential rates for postal and military traffic were abolished in 1991 and 1992, respectively. Third, BR has been vested with power to adjust tariffs. In practice, however, this has proved difficult since any adjustment above 10% must be approved by Bangladesh Railway Authority (BRA), the railway board, which comprises mostly government officials (para. 24). The Government continues to set tariffs through BRA, particularly for passenger services. As trains are considered "poor man's transport," increased tariffs are perceived to have political implications. Competition from road transport has also kept passenger train fares down. As a result, there has been only one tariff increase for intercity trains since May 1998. Fourth, the total work force has been reduced from a high of 56,700 in FY1991 to 36,600 in FY2001, although total labor costs in absolute terms have not decreased due to higher-than-inflation salary increases (para. 20).

17. The condition on working ratio¹² no greater than one (i.e., break-even against working expenses by FY1994) was briefly achieved with the working ratio below one (or only marginally above one) during the period FY1995–FY1999 (Appendix 2). However, since FY2000, the gap between total revenue and working expenses has once again increased sharply with the

¹² Total working expenses excluding depreciation over total operating income.

working ratio exceeding 1.1.¹³ The condition on operating ratio¹⁴ no greater than one by the end of FY1997 has clearly not been achieved even though the operating ratio has not been calculated due to lack of information on depreciation.¹⁵ Figure 1 in Appendix 3 illustrates the breakdown of operating revenue and costs and the net revenue. It shows that the composition of BR's revenue has changed with revenue generated from passenger traffic exceeding revenue from freight traffic in the more recent years. This trend reflects a change in the mix of passenger services toward better intercity express services and a reduction of ticketless travel¹⁶ as well as stagnant freight traffic due to increasing competition from road transport.

2. Termination of Open-Ended Subsidies and Introduction of a Public Service Obligation Policy

18. The intention of the Program in introducing PSO policy was to make government subsidies explicit and, in doing so, gradually terminate open-ended subsidies. The Government would only pay for those railway services that were deemed socially desirable but not commercially profitable, and those unprofitable lines not covered by PSO would be closed. A PSO mechanism was introduced under the Program. However, the original target to reduce the PSO amount by 15% in real terms per annum was not achieved and was waived for the second tranche release (para. 12). The target was revised to remain constant in nominal terms and, as a result, the PSO amount has been fixed at Tk860 million since FY1998. Nevertheless, it has not achieved its intended purpose. BR does not use commercial accounting practices and its accounting department has not been able to prepare cost estimates for operating train services for a number of years.¹⁷ As a result, the PSO amount bears no relationship to the actual costs. Although some branch lines were closed as the result of PSO implementation, there is no clear definition as to which train services the PSO amount is supposed to cover. The Government accordingly has complete control over business decision-making for all train services. Under the TA to Bangladesh for Organizational Reform of BR (footnote 4), it was recommended that all the schools and hospitals affiliated with BR should be handed over to the Ministry of Education and the Ministry of Health and Family Welfare. This transfer was not implemented. Instead they continue to be operated by BR under a new government subsidy item known as "welfare grant."

19. The primary objective of introducing the PSO mechanism was to make the Government's subsidy or procurement of particular train services more transparent. In itself this does not imply that PSO would be gradually phased out or its amount kept at a particular level per se. Presently, however, BR remains an item in the government budget and, the Government is obliged to cover BR's deficits.¹⁸ As a result, the PSO mechanism is not meaningful. Had the

¹³ The figures for FY2002 in Appendix 2 are forecast by BR and, in the OEM's opinion, unlikely to materialize.

¹⁴ Total working expenses including depreciation over total operating income.

¹⁵ BR uses debt service in lieu of depreciation in calculating total operating expenses. Operating ratios calculated using operating expenses defined in this way would be inconsistent with the definition in the Program and, therefore, have not been calculated. However, the operating ratios are likely to be much higher than one considering that the working ratios (without including depreciation) are already close to or higher than one. Under the *Jamuna Bridge Railway Link Project* (footnote 10), the target for reaching an operating ratio no greater than one has been deferred to FY2003 by which time the newly completed railway link will connect the east and west zones and, thus, increase BR's competitiveness.

¹⁶ Confirmed by the OEM's own experience in taking the train and interviews with passengers.

¹⁷ It should be pointed out that few railways in Asia, including more advanced ones including Japan, New Zealand, and Australia, have used modern accounting systems. This does not necessarily mean that PSO cannot be established. It is possible to assess existing line costs for the purpose of establishing PSO, without such systems, through special studies.

¹⁸ The net operating deficit of BR reached Tk467 million and Tk563 million in FY2000 and FY2001, respectively. The deficits, which were entirely absorbed by the government budget, continue to constitute an open-ended subsidy.

PSO been implemented fully as intended, the open-ended subsidies would have been terminated and those unprofitable lines not covered by PSO would have been shed.

3. Labor Rationalization

20. At the time of program formulation, labor cost was a key item of BR's operating expenses, accounting for about 50% of the total. In addition, a large amount of surplus labor was regarded as hindering its operational efficiency. The Program sought to reduce railway staff to no more than 40,000. The total staff strength at BR was reduced from a high of 56,700 in FY1991 to 36,600 in FY2001, as a result of labor reduction initiatives under the Program.¹⁹ A total of Tk2.65 billion of the counterpart funds generated from the loan proceeds were used to reimburse the costs of providing separation packages for the retrenched staff, who received lump sum payments up to Tk500,000 during 1992 and 1993. As shown in Figure 2 of Appendix 3, despite reduction in staff numbers, total labor cost increased from Tk1.76 billion in FY1991 to Tk2.35 billion in FY2001. This was due to the general salary increase for all government employees including BR employees, whose salaries have, on average, increased 2% to 3% faster than consumer price indexes. However, Figure 2 also indicates, if no action had been taken in reducing staff level (i.e., if the number of employees had remained at the 1991 level, or only natural attrition occurred) annual labor cost could have been Tk1.3 billion and Tk0.6 billion higher, respectively. Further, despite the increases in absolute terms, labor cost as a percentage of the total working expenses has come down from 50% to 44%.

21. Under the Program, BR was to base its staff retrenchment program on a detailed redundancy study for each department. Although studies regarding a labor reduction strategy and human resource programs for retrenched workers were conducted during preparation of the Program, information obtained by the OEM indicates that the strategy and the programs were not properly implemented. BR had a policy that no one who applied for a separation package would be refused. Many of those who took the package were the more skilled and needed, and very few office employees took the package. Coupled with the accompanying hiring freeze, there has been reportedly a severe shortage of skilled workers in some key job categories including drivers and stationmasters. BR was to retrain staff and upgrade skills to ensure continued and upgraded railway operations. The OEM visited a training center in Chittagong funded by the Canadian International Development Agency, which appears to be well maintained and fully functioning. Nevertheless, interviews with BR officials revealed that BR is experiencing great difficulties in retraining workers in surplus categories to meet the demand in the needy categories, e.g., drivers and stationmasters. The reasons provided included aged and poorly educated employees, lower pay for the needy positions, and bureaucratic hurdles for moving employees within BR. As a result, despite its large number of employees at 36,000, the shortage of drivers and stationmasters has forced service cancellations and compromised safety standards.

22. Finally, as the retrenchment program was completed before the approval of the loan, the condition about providing out-counseling services and information services to all retrenched staff was not implemented. This has had adverse implications for some retrenched workers who have not been able to use the funds received to start a new career (para. 39).

¹⁹ The staff retrenchment program was initiated and completed before the approval of the loan (paras. 6 and 14).

4. Organizational Reforms

23. The main objective with respect to organizational reforms for BR was to separate it from the Ministry of Communication (MOC) and to structure it along commercial lines. Toward this end, a series of policy measures covering marketing, reorganization, pricing, private sector participation, accounting, and human resources management were to be implemented. These measures included establishing a marketing cell and a customer liaison committee for senior BR staff to interact with major customers; appointing private freight forwarders; agreeing upon and implementing a reorganization structure best suited to ensure BR's commercially oriented business practices; developing a business unit strategy, departmental mission statements, and long-term investment plan; restructuring BR based on separate business units and independent revenue and cost centers; introducing a pricing and marketing strategy based on cost and market determination; introducing accounting manual and a chart of accounts showing the cost and revenue incidence of organization units; and developing a human resource management system to enhance labor productivity. In addition, under the TA to Bangladesh for Organizational Reform of BR (footnote 4), a national railway board structure was recommended, i.e., BRA. The TA report recommended that BRA have four principal responsibilities: (i) to oversee the execution of transport policy and approve development of details for BR's long-term strategic policy and investment planning, (ii) to assure that BR operates in an efficient and commercial manner, (iii) to hire and dismiss BR's chief executive officer, and (iv) to negotiate financial and performance targets for BR and the Government.

24. Despite the creation of some new departments and restructuring of some existing departments, the overall organizational structure of BR is still one that resembles a government agency, which is functionally and regionally based, rather than a commercial entity organized by business units such as passenger or freight services and real estate companies (Appendix 4). The marketing cell (department) has been established with only 12 staff members, and is responsible for both passenger and freight marketing activities. Part of the department's responsibility is to set tariffs,²⁰ although it is not clear what is the basis for tariff setting as the costing information has not been available for a number of years (para. 18). There appears to be little incentive for the department to reach out to key customers to compete with other transport modes through more reliable services and more competitive pricing. Although a customer liaison committee is said to be functioning, interviews with BR's two key customers (Appendix 5 shows BR's key cargoes), the Ministry of Food (for food staples) and the Ministry of Agriculture (for fertilizers), indicated that such customer consultations rarely took place.²¹ BRA was created in 1996 prior to the release of the second tranche, is chaired by the Minister for Communication and comprises primarily officials from various ministries and two private sector members (Appendix 4). BRA has met 19 times since its creation and plays a minimal role in key business decision-making such as budget and investments. Board members often refer issues back to their respective agencies, not only causing delays but also continuing deep government involvement in railway decision-making.

5. Investment Rationalization

25. The investment rationalization aimed to improve BR's asset performance by controlling capital expenditure and by ensuring that investments are targeted to areas that have clear commercial justification. This was to be accomplished through (i) reviewing the investment

²⁰ Any price increase of above 10% for freight and passenger services within a fiscal year has to be approved by BRA.

²¹ Efforts to contact BR's largest freight customer, the cement industry (which imports from India), through BR, were not successful.

program proposed for the fourth 5-Year Plan (FY1991–FY1995) totaling Tk19.3 billion to control capital expenditure and to ensure that investments have commercial justifications; and (ii) concentrating BR's investment plan outlay on replacement and rehabilitation of worn-out assets and confining capacity expansion to maintenance facilities and to improvements of quality of service and enhancement of revenue generation.

26. According to the PCR, the total investment expenditure for the fourth 5-year plan period was reduced from the initial Tk19.3 billion to Tk9.7 billion. Information provided by BR indicated that total planned capital expenditure for the fifth 5-Year Plan (FY1998–FY2002)²² will be Tk25.0 billion, of which about half (Tk12.4 billion) is financed by the Government and the balance from foreign assistance and other sources. About Tk15.3 billion of the Tk25.0 billion is allocated to the railway link over the Jamuna Bridge (footnote 10),²³ and the remaining Tk9.7 billion is for other projects, in line with the level of the fourth 5-Year Plan. Appendix 6 provides a list of completed and ongoing projects.²⁴ A detailed examination of the list of the projects by the OEM has confirmed that, although some items on the list have questionable commercial viability, most projects are related to rehabilitation or expansion of existing facilities and appear to be justified. Despite the investments, it is clear that many worn-out productive assets cannot be rehabilitated or replaced due to lack of funds. Of BR's 74 broad-gauge and 202 meter-gauge locomotives, 72 (27%) are 36 years or older; 54 (19%) are 31–35 years old; 75 (27%) are 21–30 years old; and only 75 (27%) are 20 years old or less. The fleet is in need of overhaul as well as rebuilding. Eighty percent of the scheduled overhauls cannot be carried out due to lack of funds, as BR has been cutting back on major maintenance and renewal items to reduce its deficits. Interviews with both BR and private freight forwarders suggested that BR's penetration in the Dhaka-Chittagong container market is limited largely because of insufficient equipment.

C. Management of the Program

1. Disbursements and Procurement

27. The loan was disbursed in two tranches in the amounts of \$51.41 million and \$34.15 million on 28 October 1994 and 7 March 1996, respectively. Bangladesh Bank liquidated the loan proceeds and credited the counterpart funds to the account of the Ministry of Finance using current exchange rates, at Tk40.15 per dollar and Tk40.90 per dollar, respectively, for a total of Tk3.46 billion (para. 32). The foreign exchange was retained by Bangladesh Bank as balance-of-payments support.

2. Performance of ADB and the Executing Agencies

28. Despite the design deficiencies identified (para. 14), ADB's overall performance in designing the Program and conducting policy dialogue was satisfactory. Altogether 12 missions were fielded before loan approval over a period of more than 4 years. During this period, circumstances arose that delayed the loan processing. First, change of the Government and less-than-evident commitment to reforms by the Government warranted that ADB spend a considerable amount of time and energy in convincing the Government to initiate the reforms and to make substantial progress in implementing the reforms before loan approval so that the reforms were less likely to be reversed. Subsequently, faced with mounting pressure from its

²² Between the fourth and the fifth 5-year plan periods, there was a two-year plan that covered FY1996 and FY1997.

²³ It is the OEM's opinion that the railway link on the Jamuna Bridge is crucial for any hope of BR's survival in competition with road transport and, thus, is critical to any prospect of restoring BR's financial viability.

²⁴ The total cost in Appendix 6 exceeds Tk25.0 billion because it includes both projects commenced before the fifth 5-Year Plan and those to be completed thereafter.

member countries to improve project quality, ADB made processing of the Program conditional upon the Government's compliance with the conditions of two other ongoing program loans in industrial and agricultural sectors (para. 6). The processing did not resume until the Government indicated that it would not be able to comply with the second-tranche conditions of the Second Industrial Program Loan (footnote 5), and requested cancellation of the second tranche. In hindsight, the approach of applying cross-conditionalities with program loans in different sectors may have been unusual but justifiable given the difficulties in securing the Government's commitment to reforms since it sent a strong message that the conditions were binding and ADB was serious about reforms.

29. The role of Bangladesh Bank as an executing agency was limited to the liquidation and disbursement of loan proceeds. The performance of MOC as the Executing Agency for designing and implementing reforms under the Program was generally satisfactory but could have been improved. Under the Program, a steering committee was to be established comprising officials from MOC, the Ministry of Finance, and the Planning Commission. Although it was unclear whether such a steering committee was formally established, available records indicated that there had been intensive consultations between the Ministry of Finance and MOC before loan approval in agreeing upon the reform framework and drafting the Development Policy Letter. In addition, a senior BR staff member was appointed as the project director, reporting directly to the secretary of MOC, and responsible for implementing the reform measures. Although it took a long time for the Government to agree to the policy and institutional reform measures, it implemented most of them. The PCR indicated that the Government had implemented 24 out of 26 second-tranche conditions at the time of completion, while the OEM has found that it is currently in compliance, fully or partly, with 20 out of 34 conditions in the policy matrix (Appendix 1). The other conditions were either complied with only temporarily or, in the OEM's view, were never complied with. The Government has not built on the initiatives undertaken by the Program to continue the reform agenda.

3. Effectiveness of Supporting Technical Assistance

30. The six TAs in connection with the Program (footnote 4) were recently post-evaluated.²⁵ The first four TAs, which were related to program preparation (para. 6), and the fifth TA (Monitoring of Policy Reforms under the Railway Recovery Program) were rated successful. The four TAs related to program preparation provided an intellectual vehicle and a means of dialogue for ADB and the Government to reach a common framework of reforms based on an in-depth study of the railway sector. Important concepts and reform measures such as PSO, a railway board as the governing body, and creation of a marketing cell were identified through the TAs and were implemented by the Government. In view of the complexity of the sector and the difficulties encountered in reaching the consensus, the TAs were justified and mostly achieved their purposes in so far as the Program's formulation, monitoring, and implementation. The fifth TA was on monitoring of program implementation (para. 31). The sixth TA (for organization reform), which was approved after the release of the second tranche and was to provide continuous support to BR to carry out further reforms identified and agreed upon under the Program, was rated partly successful. According to the evaluation report (page 20), "once the TA commenced, its intended implementation arrangements were found not to be feasible, and real government commitment to the reform and commercialization agenda was found to be wanting." The TA was also found lacking in training and transfer of technology, particularly in the marketing area.

²⁵ ADB. 2001. *TA Performance Audit Report on the Railway Technical Assistance in Bangladesh*. Manila.

4. Monitoring

31. ADB's monitoring of program implementation was intensive with a total of nine loan and TA review missions and special loan administration missions. In addition, a small-scale TA for monitoring policy reforms under the Railway Recovery Program (footnote 4), was provided to assist the Government on various practical issues related to program implementation. According to the evaluation report (footnote 25), the TA provided regular progress reports on issues related to implementation of the Program, and developed appropriate performance indicators dealing with the monthly financial performance of BR. Of particular relevance and concern were the revenue and expense items, and their combination as the working ratio. The BR officials interviewed expressed appreciation of ADB's assistance and commitment to BR during program formulation and implementation, through missions from ADB headquarters and the Bangladesh Resident Mission.

5. Use of Loan Proceeds

32. It was envisaged at appraisal that the counterpart funds generated by loan proceeds were to supplement the general resources of the Government, and specifically to assist the Government in financing the costs involved in the voluntary separation program, BR's organization restructuring, and overhaul and rehabilitation of some worn-out assets (para. 10). However, as money is fungible, ADB management stressed during appraisal that the Government should be given flexibility in using the counterpart funds as long as the conditions were met. The main portion of the counterpart funds generated from the loan proceeds was used to reimburse the costs of the voluntary separation program. Information provided by BR suggested that these costs, incurred before loan approval (para. 20), were Tk2.65 billion, equivalent to 76% of the program loan amount. The balance of the counterpart funds was used by the Ministry of Finance for BR's investment programs, PSO, welfare grants, and operating deficits (paras. 18 and 26).

III. PROGRAM RESULTS

A. Performance Indicators

33. Impacts of the policy and institutional reforms stipulated by program loans may be assessed in terms of contribution to the reform process, the real economy, external indebtedness, advancement toward sector goals, and creation of an enabling environment for the private sector. For the Program, a series of operational, financial, and macroeconomic indicators were used, which together present changes, or lack thereof, in those areas that can be attributed to the Program. Some of these indicators, such as working ratio or total government subsidy to BR, were used in appraisal; others are applied by the OEM to capture impacts of the Program in the aforementioned areas.

B. Impacts of Policies

34. Although the target to break even against working expenses by FY1994 was briefly achieved (para. 17), since FY2000 the gap between operating revenue and expenses has once again increased sharply. Figure 3 in Appendix 3 indicates that BR's freight and passenger traffic, measured by total ton-kilometers and person-kilometers transported, respectively, has more or less stagnated and even declined since FY1981. However, after FY1996 when the Program was completed, both freight and passenger traffic started to rise, indicating possible impacts of the Program's measures including improvement of intercity passenger trains.

Nevertheless, lack of sustainability of such impacts may be particularly evident with the freight traffic, which has been declining again since FY1999. Figure 3 also indicates that on average, BR's passenger transport in terms of person-kilometers is about 5–10 times of its freight transport measured in ton-kilometers. Yet, the revenue generated from passengers has only recently exceeded that from freight (para. 17), indicating a much lower-than-one person-kilometer tariff/ton-kilometer tariff ratio,²⁶ despite the Program's initiatives in raising passenger service tariffs. Furthermore, Figure 4 indicates that employee productivity, measured by total traffic units (i.e., ton- and person-kilometer combined) per staff, has also experienced a similar stagnation since FY1981, despite the economic growth that averaged about 4%–5% per year for the same period. A moderate increase is observable since FY1996, which was likely the result of the reduction of 20,000 workers. Figure 5 shows that total engine kilometers for all types of traffic exhibited a slow decline since FY1990, partly the result of an aging fleet and a worsening equipment utilization rate.

35. For key freight categories, the Ministry of Food ships about 30% of grain by rail, 25% by boat, and the remaining 45% by road. BR could not meet the demand during peak seasons, and system losses are indicated to be larger when using railway directly than when employing private freight forwarders who use railway, road, or inland water transport, depending on a variety of economic and logistic factors. For fertilizer, railway's share dropped from about 25% in FY1995 to about 6% in FY2001 (Figure 6 in Appendix 3). The main reasons have been that rail transport is slow and unreliable, particularly compared with the rapidly improving road transport. As an example, a specialized large road transport truck (25 tons) can move fertilizer from the Chittagong port to the far northwest of the country in less than 24 hours. Railway movements, averaging about 11 tons per car, take several days just to get to the Jamuna River crossing, and then spend 8 to 10 days waiting to get across. Transport to the final destination takes several more days, although the time will be shortened once the Jamuna Bridge railway connection is completed (footnote 10). Interviews with representatives of private freight forwarders and bus operators indicated that there is a large and growing market in container and passenger traffic on the Chittagong–Dhaka route. For containers, Figure 7 of Appendix 3 indicates that BR's handling and earning has been increasing at a near exponential rate. However, BR currently has less than 15% of the market due to lack of equipment and low efficiency. For passenger traffic, the OEM estimated that out of about 40,000 passengers traveling between Chittagong and Dhaka every day, railway captures about 5,000. The examples of fertilizer and container transport suggest that BR needs selective investments in addition to a commercial focus and business strategy as prerequisites to financial recovery, and the Program only addressed the latter.

36. The Program's contribution to the real economy and external indebtedness appears to be moderate. Figure 8 indicates that total cash injection from the Government (including PSO, welfare grants, and other open-ended subsidies but excluding investments) has been increasing since FY1983 on the whole and reached a record high in FY2001. The temporary decline during FY1996–FY1998 reflected the Program's effective but short-lived impacts. At the macroeconomic level, Figure 9 reveals that the Government's expenditure and deficits have also increased since FY1992. Figure 9 also indicates that the government cash injection to BR as a percentage of government expenditure and budget deficit has fluctuated around 0.5% and 1.5%, respectively. However, as indicated by Figure 2, the cash injection by the Government could have been much larger had the reduction of the 20,000 workers not taken place. Compared to the "attrition only" labor cost scenario, the annual labor cost is about Tk630.0 million (about \$12.0 million) lower. Finally, Bangladesh had an external debt to gross national

²⁶ A recent survey indicates that no railway in the world is profitable when this ratio is less than one.

product ratio of approximately 37% in 1999 (the latest year data available). Figure 10 of Appendix 3 shows that international assistance, in the form of loans and grants, has remained more or less constant since 1994 amid a general increase of government revenue. The contribution of the Program, at \$85.6 million, to the external indebtedness is considered moderate.

37. Under the Program, BR was to appoint private sector freight forwarders; this was not done (Appendix 1). Private sector participation has occurred, but is confined to ticketing and onboard train services in passenger trains, computerized ticketing, fiber optic telecom network, refurbishment of passenger coaches, etc. However, even the limited private sector involvement has improved the passenger services significantly (para. 17).

C. Institutional Development

38. The efforts to create a more commercially oriented BR with such measures as the creation of a marketing cell, customer liaison committee, and BRA have largely been ineffective in terms of improvement of institutional efficiency (paras. 23–24). Overall, despite progress in some areas, BR has not been able to act as a commercial entity. A key weakness that urgently needs rectification is BR's accounting practices, which are not capable of generating useful information for key business decision-making, including costs of running particular services. The five TAs related to the preparation and implementation of the Program and the follow-up TA (organization reform of BR, phase II) have had limited success in terms of institutional development despite their contribution to the Program's formulation and implementation (para. 30). None of the TAs had tried to estimate the costs of carrying out the reforms recommended (except for the costs of the labor retrenchment program). They had not identified sources of funds to cover the costs nor how the costs would be recovered. This partly explained the lack of further development in institutional development and reforms once labor reduction was completed.

D. Socioeconomic Impacts

39. The Program's socioeconomic impact lies principally in two aspects: (i) stabilizing the macro economy through balance-of-payment support with the loan proceeds in foreign exchange, and reduction of government budget deficit through labor cost reduction (para. 36); and (ii) the livelihood of the 20,000 retrenched workers (paras. 20–22). Interviews with representatives of the retrenched workers and union leaders suggested that only a small portion of the workers were able to make good use of the compensation funds to successfully set up new businesses or for other productive purposes. Some of them, currently aged over 50, used up the money and their long-term prospects are uncertain.²⁷ The retrenched workers did not receive out-counseling and advisory services from BR as to how to use the money and start a new career, which could have helped reduce unwise investments and spending.

E. Environmental Impacts

40. The Program itself is environmentally neutral. However, improved railway services could potentially reduce vehicular emissions by trucks and cars, even though the Program's impact on both passenger and freight traffic was moderate and short-lived (para. 34).

²⁷ Some, according to the interviews, turned to begging.

F. Sustainability

41. The main outcome of the Program, reduction of deficit and break-even against working expenses, has not been sustained, even though some of the measures implemented to achieve the outcome have been kept in force including reduction of 20,000 workers. The main reasons for lack of sustainability are twofold. First, despite the strong efforts made by ADB and the Government at the time of appraisal to secure commitment to reforms at all levels, such commitment has not been passed on to successive governments and BR's core management teams. Second, at the program design level, there appeared to be a mismatch between the program objective and the policy and institutional measures prescribed (para. 14). Some of the measures were one-time in nature, e.g., selling of metal scrap. To achieve and sustain a financial break-even situation, BR still needs to overcome a large number of inherent difficulties such as the dual-gauge system, lack of railway connection between the east and west zones, and aging fleet (para. 49).

IV. OVERALL ASSESSMENT

42. **Relevance.** The Program was relevant in terms of its conformity with the Government's goals and policy, as well as ADB's operational strategy in the railway sector at the time, which rested on the assumption that railway provides an important means of transport in the country. The thrust of the strategy was to support the Government's efforts to consolidate and expand BR's core business, thereby harnessing the railway's economic potential, which lies in flow of bulk traffic over long distance. The relevance may have been reduced somewhat by the fact that the railway's share in the overall transport market in both passenger and freight traffic has either stagnated or declined, partly due to increasing competition from the rapidly improved road transport. Nevertheless, railway remains an important transport service, particularly for the mass poor. ADB's current operational strategy in Bangladesh places greater emphasis on private sector-led growth, as well as ownership of and commitment to reforms by the Government. The market-oriented reforms initiated by the Program may be viewed as a necessary first step for future corporatization of BR and concentration of commercial operations in selected profitable routes. Overall, the Program was relevant.

43. **Efficacy.** The Program's first objective to restore and sustain BR's financial viability, by breaking even against working expenses by FY1994 and fully recovering working expenses and depreciation by the end of FY1997, was partly and briefly achieved. Since FY2000, BR's working expenses have once again exceeded its operating revenue and the deficit has increased to a record level. However, it may be argued that without the Program, the labor cost and operating deficit would have been much higher. The second objective of the Program, to make BR more responsive to the demand of the transport market, was largely not achieved as BR continues to function as a government agency in terms of open-ended budgetary support, ministry-oriented organizational structure, and lack of commercial focus and culture. Overall, the Program was less efficacious.

44. **Efficiency.** Although it is generally difficult to measure the efficiency of program loans, the labor reduction component of the Program has had clear implications for BR's operating costs. About \$65.0 million equivalent of the \$85.6 million was used to reimburse the separation packages paid prior to loan approval for approximately 20,000 retrenched workers. This has resulted in an annual saving in salaries of about \$12.0 million, compared with the "attrition only" scenario. Nevertheless, per employee productivity has only improved slightly. Loan disbursements and most policy conditionalities were implemented within the agreed timeframe. Overall, the Program was efficient in execution and cost effective in results.

45. **Sustainability.** Lack of sustainability in terms of impacts emerges as a major deficiency, despite the fact that all but two reform measures stipulated by the Program had been implemented by the time of completion. Subsequently, there has been a clear relapse in progress toward the Program's objective of achieving and sustaining BR's financial viability. Overall, the Program is less sustainable.

46. **Institutional Development and Other Impacts.** An important objective was to make BR more responsive to the demand of the transport market, through a series of institutional measures (e.g., establishment of BRA and a marketing cell), and TAs, all designed to make BR function more like a commercial entity. However, BR has made limited progress toward this goal; there has been no significant improvement in BR's institutional efficiency and culture. On social impacts, many of the 20,000 retrenched workers who took the separation package have not been able to successfully start a new career with the funds received and their long-term livelihood is uncertain. Overall, the Program has had mixed but only moderate institutional and social impact.

47. **Overall Rating.** Based on the above considerations, the Program is rated partly successful.

V. KEY ISSUES, LESSONS, AND FOLLOW-UP ACTIONS

A. Key Issues

1. Continued Political Interventions in Railway Operation

48. Many BR officials interviewed expressed a sense of helplessness that the Government continued to dominate decision-making in such crucial areas as labor, train scheduling, and tariff setting. As a number of BR top management members are former government officials, it is more important for them to satisfy the Government's demand than customers' needs. Without fundamental changes, it is difficult for a government-owned railway in such a state-dominated economy to become commercial.

2. Cycle of Decline for Railway?

49. BR has reached a critical juncture in its performance and is dangerously close to a cycle of decline experienced by many other countries' railway services, i.e., lower revenue leading to lack of investments and maintenance, causing poor services and further contributing to reduced revenue. While railways worldwide face increasing competition from road, air, and shipping transport in meeting the rapidly changing market demand, BR faces additional challenges in overcoming its lack of commercial focus, low efficiency, poor service quality, political interference, aging fleet, and natural barriers including lack of railway connection between the east and west zones and a two-gauge system. Part of the decline is structural: as the country's road network improves, road transport can increasingly provide fast, door-to-door delivery at reasonable costs for most cargo types. However, BR should explore its own advantages and potential, which lies in mass transport of freight and passengers, especially the poor, including the largely uncaptured container and passenger markets between Dhaka and Chittagong.²⁸ With the completion of the Jamuna railway link, there will be a large potential of BR intercity

²⁸ Some interviewees believed that if BR focused exclusively on the Chittagong-Dhaka passenger and container market, it would be able to achieve and sustain break-even against operating expenses.

services for the Dhaka-Calcutta route. The international (Indian) freight traffic, which today accounts for half of BR's traffic, may reach 3 million to 5 million in a few years with improved management and marketing strategies.

3. ADB Assistance in Railway

50. Two bilateral agencies previously active in the railway sector (Canadian International Development Agency and the German Agency for Technical Cooperation), have recently withdrawn their support due to lack of substantive reforms. Others including the World Bank and Japan Bank for International Cooperation are observing ADB's assistance program. ADB, which has been the lead agency in the railway sector,²⁹ recently suspended two ongoing TAs, including the third TA on organizational reform for BR.³⁰ Depending on the level of commitment demonstrated by the Government to deepening the reforms of BR toward corporatization and privatization, the TAs may be resumed or canceled. The predominant view among development agencies is that investing in railway in Bangladesh with absence of further reforms is not wise compared to other alternatives such as roads or inland waterways. However, the OEM believes that the "No Reform, No Money" policy currently followed by most development agencies including ADB can only be effective if accompanied by intensive policy dialogue with the Government.

B. Lessons Learned

1. Sustained Commitment to Reforms as a Necessary Condition for Success

51. The Program demonstrates, in an adverse fashion, that policy-based lending cannot be successful without sustained commitment of the Government and concerned institutions to reforms. ADB recognized this from the beginning and insisted that the Government of Bangladesh demonstrate its commitment by implementing some key reform measures before the Program's approval. However, the commitment wavered or has not been passed on to the successive governments or BR management teams. While it is difficult to foster such commitment externally, a key difference between a reform-oriented organization and otherwise, among others, may lie in the number of change agents at all levels but particularly at the top. Future program loans should make an assessment of the strength of such change agents and, as a long-term task, ADB should actively engage in nurturing them through dialogue and training activities. Also, it is important to assess the long-term commercial viability of the operations that the program loans intend to assist.

2. Program Design and Implementation

52. Though generally sound, the design of the Program could have been improved in several aspects. First, it was essentially a blueprint, target-oriented approach in that all objectives, and policy and institutional reform measures were expressed in terms of targets. This blurred the distinction between the program objectives and the means and the outputs intended to achieve the objectives among some Government and BR officials. Many felt that as long as the measures are implemented, the objectives should be considered achieved with no need to carry out further reforms. This was quite evident during the OEM wrap-up meeting at which some BR officials blamed ADB for BR's deteriorating performance by arguing that they

²⁹ Aid coordinating meetings and joint activities, including workshops and joint meetings with the senior level of the Government on railway reform issues, have been conducted regularly at ADB's Bangladesh Resident Mission.

³⁰ ADB. 2000. *Technical Assistance to Bangladesh for Regional Traffic Enhancement*. Manila; ADB. 2000. *Technical Assistance to Bangladesh for Organizational Reform of Bangladesh Railway, Phase III*. Manila.

had implemented almost everything that ADB asked them to do under the Program and other loans. Future program design should be more result oriented by focusing on accomplishing program objectives rather than on outputs. By doing so, the total number of conditions could have been reduced dramatically, perhaps to seven or eight. The result-oriented approach would be more input-intensive, involving fewer hard targets but more dialogue and joint assessments, by ADB and the Government, of reform progress during implementation. Second, the Program was approved well after the completion of the labor retrenchment program. As a result, the condition on providing counseling and information services to the retrenched workers was not enforced. Future labor retrenchment program design may consider dividing the total compensation package into lump sum and monthly payments, to avoid the situation in which many workers spend their lump sum payments in a very short time without success in starting a new career.

53. Finally, there appears to be a considerable gap between the program objective of breaking even against working expenses and the policy and institutional reforms pursued in that BR faces many additional inherent physical constraints, namely aging fleet, a two-gauge system, and lack of railway connection between the east and west zones. Unless these physical constraints are alleviated, the break-even objective is unlikely to be sustained even if it has been temporally achieved. In this regard, ADB developed in 1996 the sector development program modality, which is designed to provide policy, capacity building, and investment support in a holistic manner. This modality generally has three components: program, investment, and TA. Had the modality existed at the time of the Program's formulation, it may have been a better tool to address the policy and institutional constraints, and to focus physical investments on selected potentially commercially viable operations to overcome key physical constraints. It would also have provided more incentive to MOC and BR (the agencies that carried out the reforms) in the form of investments and capacity-building opportunities since program loan proceeds go to governments' general budgets.

C. Follow-Up Actions and Recommendations

1. For ADB

54. ADB should continue its policy dialogue with the Government, particularly through its Bangladesh Resident Mission, to revive and deepen the market-oriented reforms initiated under the Program before considering further assistance.

55. One of the key conditions under the Program, namely, achieving an operating ratio of less than one, has been deferred in the Jamuna Bridge Railway Link Project (footnote 10) to FY2003. ADB should continue to follow up on compliance with this covenant.

2. For the Government

56. The newly elected majority Government has received a strong mandate to implement far-reaching reforms, and has pledged firm commitment to such reforms at the recent aid coordination meeting in Paris. For the long-term interest of BR and a more efficient transport sector in Bangladesh, the Government should take immediate and concrete actions toward BR's corporatization. The most important step is to minimize interference with BR's business operations and decision-making. This can be partly achieved through increasing the private sector representation in BRA and reducing representation from various ministries. The Government, perhaps with assistance from development agencies, should conduct an analysis on the social and economic benefits of keeping in operation those unprofitable lines that would

be covered by PSO. The Government should also remove BR as a line item from its budget, and its subsidies to BR should be in the form of either PSO payments or welfare grants, terminating all open-ended subsidies. These measures are urgently needed and should be implemented without delay in order to halt BR's continuing decline.

57. On a broader issue, Bangladesh has had no transport policy that considers all modes of transport in a coherent and coordinated manner taking into account their comparative advantages. Massive investments have been made in the road sector, which may prove to be unsustainable, particularly in a country like Bangladesh with high population density and limited space. Recently, however, the Government has prepared a draft transport policy with assistance from ADB, World Bank, and other bilateral aid agencies. It is imperative for the Government to approve and start to implement the policy in FY2003.

2. For Bangladesh Railway

58. During FY2003, BR should improve its accounting practices by adopting the generally accepted accounting principles or other internationally accepted accounting practices to generate information on costs and revenues for all of its operations. Without such information, any discussions on furthering commercial reforms will remain futile.

59. Immediately after this step is taken, using information on costs, revenues, and social economic benefits, BR should jointly decide with the Government which unprofitable lines should be covered by PSO, and then negotiate with the Government the total PSO amount. Those lines jointly deemed as too costly relative to their expected social and economic benefits should be shed.

60. BR should concentrate on profitable lines, e.g., the passenger and container markets for the Dhaka-Chittagong route, with increased investments and proper business and marketing strategies. While the strategy to focus on profitable lines should be implemented as soon as possible, an important turning point of BR's competitiveness may be the completion of the Jamuna Bridge railway link scheduled in June 2003, after which a commercially oriented strategy is absolutely necessary.

61. BR should make good use of its training facilities to retrain workers to fill key job categories including drivers and stationmasters, and provide better compensation for these job categories in order to attract more qualified people. This can be implemented immediately.

62. Finally, BR should continue to monitor the livelihood of the 20,000 retrenched workers and extend assistance if necessary.

POLICY MATRIX AND COMPLIANCE STATUS

Policy Objectives and Required Policy Actions	Status as Reported in Project Completion Report			Current Status of the Program	
The overall objective of the Program is to restore and sustain the financial viability of Bangladesh Railway (BR) to eliminate its burden on the economy as well as to restructure BR to make it more responsive to emerging transport requirements.					
Reduce deficit to break even against working expenses by using all the necessary actions to increase revenues and decrease expenses.	The overall objective of the Program and the working ratio have been achieved.			The objective was briefly achieved. Since FY2000, the working expenses have accelerated and the deficit widened.	
Reduce deficit to break even against working expenses and depreciation by using all the necessary actions to increase revenues and decrease expenses.	Target revised; to be achieved by June 2003 as covenanted under Loan 1561-BAN[SF]: Jamuna Bridge Railway Link Project.			Not yet achieved.	
1. Policy Objective 1: Elimination of deficit through measures to increase revenue and control cost.					
a. BR to tighten control on ticketless travelers and intensify its ticket checking activities	Drive sustained; total of 941,058 ticketless traveling persons were detected in FY1995, contributing fine and fares of Tk27.0 million. In FY1998, a total of 1.011 million ticketless riders were detected, contributing fines and fares of Tk33.8 million. The project completion report (PCR) reported that this demonstrated BR's continued drive to curb ticketless riders.			Complied with. During FY2002, the earning from passenger traffic was estimated at Tk1,565.7 million or 56% higher than Tk1,003.6 million in FY1997. For intercity trains, ticketless travel is virtually arrested by the private onboard conductors. For local trains, ticketless travel is still evident but the exact extent is unknown.	
b. BR to increase revenues through commercial use of land and sale of land not required by BR and redundant assets.		FY1994 (Tk mn)	FY1997 (Tk mn)	FY1998 (Tk mn)	Partly complied with. During FY2001, Tk105 million was earned from licensees of railway land. BR is actively considering commercial exploitation of surplus land through public-private partnership. A policy of joint venture is currently being formulated. As of June 2001, 1055 Broad-Gauge (BG) wagons and 2427 Meter-Gauge (MG) wagons have been scrapped.
	Estate Dept. Scrap	64 84	97.5 95.4	411 79	
	Note: Figures for real estate in FY1998 also include sale of land for Tk336 million plus rental of Tk75 million. Previous years included rental only.				
c. Full recovery of electricity charges from BR staff.		FY1994 (Tk mn)	FY1997 (Tk mn)	FY1998 (Tk mn)	Complied with. Full recovery in force since 1 April 1992. Previous system of realizing electricity charges as a fixed percentage of basic pay has been discontinued.
	Electricity	21.0	26.2	28.5	
d. Withdrawal of preferential rates applied to postal and military traffic.	Kept in force.			Complied with. Regular freight rates have been made applicable to Government postal traffic from July 1991 and to military traffic from July 1992.	

Policy Objectives and Required Policy Actions	Status as Reported in Project Completion Report	Current Status of the Program
e. Autonomy delegated to BR to periodically adjust fares and freight rates.	Kept in force.	Partly complied with. The Director General of BR can adjust tariff not exceeding 10% in a fiscal year. Beyond that approval of the Bangladesh Railway Authority (BRA) is necessary. In practice, however, the Government continues to influence tariff setting through BRA.
f. Upward adjustment of passenger fares, especially focusing on second class mail and express trains and ordinary passenger services.	Kept in force. In 1993, passenger fares were increased on average by 7% after a 13% increase in 1992. However, due to increasing competition, further increases in passenger tariffs were not appropriate in 1994 unless accompanied with improvements in service. This was particularly important for the main corridor between Dhaka and Chittagong, where the opening of the last road bridge had increased competition from buses and depressed passenger rail traffic. In May 1998, after BR improved the quality of its services using the private sector, tariff increases were again justified. Thus, BR made increases ranging from 6% to 19%, which were distributed in the various classes of services.	Partly complied with. Entire intercity passenger tariff was revised effective 1 May 1998. No fare increase since then.
2. Policy Objective 2: Termination of open-ended subsidies by introducing an explicit public service obligation (PSO) and compensating BR for socially unremunerative railway services.		
a. Scope of PSO mechanism to be agreed between the Government and BR.	Kept in force. A PSO notification was published in February 1993 and is still being kept in force.	Kept in force nominally. However, since the Government continues subsidizing BR's operating deficits, PSO lost its real meaning.
b. BR to identify services currently under a public service obligation, quantify the losses involved and obtain Government confirmation that those services will henceforth be covered under the PSO policy.	Action completed before the first tranche release (not reported in PCR).	Information obsolete. Under Organizational Reform Project Phase III (TA 3491-BAN), there is a plan to reassess and modify the PSO scheme using traffic costing systems.
c. BR to apply annually to the Government for the PSO compensation whereby a 15% reduction per annum in real terms in the compensation at the current level of PSO services is achieved.	Policy action modified as a condition of Asian Development Bank's (ADB) approval in October 1997 of Loan 151-BAN[SF]: Jamuna Bridge Railway Link Project. PSO amount to be kept constant in nominal terms. This means effectively a decrease of the PSO amount in real terms by the inflation rate. The Government is adhering to this policy action. The application to the Government for PSO compensation amounted to Tk784 million in FY1993; Tk757 million in FY1994, and Tk830 million in FY1995. Adjusting for the effects of inflation, the reduction in real terms was 3% between FY1994 and FY1995. PSO payments were Tk905 million in FY1996, Tk880 million in FY1997, and Tk860 million in FY1998. When taking inflation into account, the PSO amount	Complied with the revised covenant. The PSO amount has been fixed to Tk860 million per year since FY1998.

Policy Objectives and Required Policy Actions	Status as Reported in Project Completion Report	Current Status of the Program
<p>d. Government to provide for adequate budgetary allocations annually to finance the PSO compensation.</p>	<p>shows a declining trend for PSO payments made over the last three year period, which is in line with the covenanted condition under Loan 1561-BAN[SF].</p> <p>Accomplished; appropriate budget provisions to finance PSO were made by the Government during FY1994–FY1998.</p>	<p>Unclear, because BR has not been able to generate information on the total cost of running the train services required by the Government.</p>
<p>3. Policy Objective 3: Labor rationalization to reduce BR costs and align staffing consistent with the envisaged operational and commercial role of BR.</p>		
<p>a. BR to enforce a ban on staff recruitment and freeze overtime.</p>	<p>Kept in force. BR has a ban of staff recruitment and freeze of overtime in force. The current total staff, as of June 1999, is 38,100. When staff are excluded to whom the Government pays welfare grants, the number is 36,095. The number continues to be reduced. Additional new staff reductions to 30,000 employees have been agreed to by the Government and covenanted under the Jamuna Bridge Railway Link Project.</p>	<p>Partly complied with. The former Railway Division put an embargo on recruitment with effect from 25 June 1988, which is still in force. However, 875 staff have been recruited to address acute shortages in some essential categories. The former Railway Division imposed a ban on overtime effective 7 May 1990. This is still in force.</p>
<p>b. BR to determine realistic staff requirements, overall and departmental redundancies.</p>	<p>Not reported in PCR.</p>	<p>Partly complied with. Although studies regarding labor reduction strategy and human resource programs for retrenched workers were conducted in connection with preparation of the Program, information obtained by the Operations Evaluation Mission (OEM) indicates that the strategy and the programs were not properly implemented. Partly as a result, some job categories, e.g., stationmasters and drivers, currently suffer from severe staff shortages while others, e.g., administrative, are seriously overstaffed.</p>
<p>c. BR to issue administrative orders that reduce sanctioned staff positions to the determined target level.</p>	<p>Accomplished. BR has completed an official re-sanctioning of staffing levels to 39,532 employees in 1997. Actual staffing levels have fallen below that level.</p>	<p>Complied with (no change).</p>
<p>d. BR to implement the staff reduction strategy, based on voluntary separation and natural attrition, to ensure achievement of desired staff level.</p>	<p>Accomplished. The staff has been reduced substantially. At the end of June 1999, BR had 38,100 employees of which 2,215 school staff and hospital staff are paid by welfare grants from the Government.</p>	<p>Kept in force. Presently BR has 35,899 staff on payroll (as of January 2002) including 1,667 staff paid against welfare grant, 190 staff of digital telecom department, 138 staff seconded to the projects. The actual number of staff paid from BR's revenue is 33,904. Staff rationalization is ongoing in BR through natural attrition, continuance of the ban on recruitment, and adjustment between different categories. Although it is believed that BR is still overstaffed, shortages of essential staff in some areas have surfaced creeping into the operational and management system of railway. BR feels that this is the result of past staff retrenchment program and continued</p>

Policy Objectives and Required Policy Actions	Status as Reported in Project Completion Report	Current Status of the Program
e. Government to estimate the cost of the severance payment scheme and to allocate appropriate funds in the national budget.	Accomplished. The total severance package was estimated at Tk2,700 million. Provisions were made in the annual budgets, and the final disbursement was Tk2,625 million. No further funding is required as the objectives of the voluntary separation have been met and the Program is now complete.	freeze on hiring. It feels that a second “buy-out” scheme should, therefore, be a selective one and preceded by a micro-staff analysis in order to identify redundancies and possible areas of out-sourcing. The ongoing Technical Assistance (TA) 3491-BAN: Organizational Reform of Bangladesh Railway Phase III includes such a study. Complied with (no change). The revised total disbursement as provided to the OEM was Tk2,650 million.
f. BR to provide “outs-counseling” services and to appraise retrenchment staff of available training opportunities.	Accomplished; during the period of the buy-out scheme, BR provided services and appraised retrenched staff with regard to available training opportunities. The voluntary buy-out scheme was completed in 1994. Since then, staff reductions have continued through natural attrition.	Not complied with. According to union leaders and representatives of the retrenched workers interviewed, they have never received any counseling or advisory services.
4. Policy Objective 4: Reforming BR's organizational structure toward more commercial and autonomous operations.		
a. BR to establish a marketing cell and to appoint qualified staff.	Accomplished. The marketing cell is operative. A new position, additional director general for marketing was created. As part of TA 2544-BAN, the marketing cell was converted into a permanent headquarters department and renamed the marketing and corporate planning department. The existing planning department was integrated into the new department. Additional staff has been progressively assigned to the department. The marketing department has two sub-departments: freight marketing and passenger marketing.	Complied with. The marketing department, with 12 staff members, is operative but its exact function is not very clear. Setting and revising tariff for freight is among the department's responsibilities. However, it has not received cost estimates, as a key input to tariff setting, from the accounting department for a number of years.
b. BR to set up a customer liaison committee to provide a regular forum for senior BR staff to interact with major customers.	Liaison committee operative prior to first tranche release (not reported by PCR).	Partly complied with. A customer liaison committee is said to be functioning. Interviews with key customers by the OEM suggested that customer consultations have rarely taken place.
c. BR to appoint private sector freight forwarders.	Action completed prior to first tranche release (not reported by PCR).	Not complied with. BR reported that currently a tender is under finalization to associate private sector in freight operation. Once the experience is gained, the process is expected to continue.
d. BR to differentiate between those services, which are to be provided on a full commercial basis and services which the Government deems to be socially necessary but that are not commercially viable.	Not reported by PCR.	Not complied with. The distinction is unclear.

Policy Objectives and Required Policy Actions	Status as Reported in Project Completion Report	Current Status of the Program								
e. Government to approve a study under ADB-financed TA to formulate a comprehensive reform plan for BR to define the role and objectives of BR and to start a phased administrative restructuring and division of functions.	Completed prior to first tranche. Not reported by PCR.	Complied with (no change).								
f. BR to break even against working expenses without any financial support from the Government other than PSO compensation.	Accomplished. The working ratios during FY1995–FY1998 were as follows: <table><tr><td>FY1995</td><td>1.012</td></tr><tr><td>FY1996</td><td>1.033</td></tr><tr><td>FY1997</td><td>0.960</td></tr><tr><td>FY1998</td><td>0.960</td></tr></table> This represents a significant improvement before the implementation of the Program. In FY1992, BR reached a working ratio of 1.248.	FY1995	1.012	FY1996	1.033	FY1997	0.960	FY1998	0.960	The loan covenant was briefly complied with, with the working ratio below one (or slightly above one for some years) during the period FY1995–FY1999. However, since 2000, the gap between total revenue and working expenses has once again increased sharply with the working ratio exceeding 1.1.
FY1995	1.012									
FY1996	1.033									
FY1997	0.960									
FY1998	0.960									
g. Government to determine and agree upon a reorganization best suited to ensure BR's commercially oriented business practices.	Accomplished. Several senior staff seminars and workshops were held during 1994 and 1995. The Cabinet approved in principle, on 24 July 1995, the railway reforms based on recommendations agreed to by the project steering committee concerning institutional and organizational reforms. These include the approval of the mission statement; the creation of BRA; the separation of the position of director general (DG) from that of secretary, railway division; the appointment of the DG; and the approval of a new organization structure for the railway and the start of its implementation. Since 1995, most of the institutional recommendations have been implemented. Organizational restructuring has continued with the creation of several new departments and restructuring of some existing departments. Work remains to be done with respect to the restructuring of the zonal organization.	Complied with (no change). The reorganization framework was accepted in principle by the Government.								
h. BR to implement reforms based on separate Government and railway functions following critical success factors, a business unit strategy, departmental mission statements, and long-term investment plan.	Accomplished. This condition has been complied with through the creation of BRA and the separation of the position of the Secretary and the DG. The degree of separation and the delegation of authority from the Government to BRA and the DG have been explicitly defined in a separate instrument, referred to as the Authority Matrix. This is considered the cornerstone of the railway reforms. The Authority Matrix was approved by the Cabinet and was issued by resolution. Considerable new authority has been delegated to railway management for such issues as changes to tariffs, promotion and transfer of staff, and private sector involvement. The DG has exercised these authorities.	Partly complied with. BRA has been formed, the marketing cell and customer liaison committee have been established and continue to be functioning. However, the overall organizational structure of BR is still one that resembles a governmental agency, which is functionally and regionally based, rather than a commercial entity organized by business units. The railway board (BRA) was created in 1996, is chaired by the minister for communication, and comprises primarily of officials from various ministries and two private sector members. The Board met 19 times since its creation and plays a minimal role in key business decision-making such as budget and investments. The departments do not appear to have business strategies and departmental mission statements, or do not actively implement them. Many departments, however, have a long list of investment needs.								

Policy Objectives and Required Policy Actions	Status as Reported in Project Completion Report	Current Status of the Program
i. BR to restructure its organization based on separate business units and independent revenue and cost centers.	Accomplished. The TA consultants recommended that BR initially should be reorganized as a single business unit and then divided into three business units when the reforms were somewhat stabilized and when more modern accounting and information systems were in place.	In line with TA consultant recommendations. No progress made on division into separate business units. BR still works as one business unit.
j. BR to introduce a market and pricing strategy based on cost and market consideration, which are to be reflected in revised tariffs.	Accomplished. BR has implemented a new pricing strategy designed to be more responsive to competitive pressures. Recent major changes to passenger fares have been introduced on selected corridors by reducing fares where ridership had dropped, resulting in increased ridership and revenue. With the Authority Matrix, railway management now has complete pricing and marketing freedom for all freight services. A new point-to-point pricing policy was developed and implemented as part of TA 2544-BAN. A pricing cell has been created in the new marketing and corporate planning department.	Not complied with or slip back. See 4.a.
k. BR to apply revised operational performance indicators.	Accomplished. As part of the monitoring of the Program, a monthly progress reporting system was put in place that contained a series of key operational and financial indicators. Monthly reports continue to be prepared by BR and circulated to railway management and external financiers. Under a project financed by the Canadian international Development Agency, an extensive set of performance indicators was also established in relation to locomotive maintenance and overall operational performance.	Complied with. The monthly progress report system is said to be in place.
l. BR to introduce accounting manual and a chart of accounts showing the cost and revenue incidence of organizational units.	Accomplished. New chart of accounts was prepared for BR under TA 1819-BAN and recommendations made on a major modernization of BR's accounting system. The Government accepted this in principle, subject to financing of the accounting system (including computerized financial accounting and management information systems). The implementation of the new code of accounts is planned as part of a major overhaul of the accounting system. The Government is seeking external funding, which is required for implementing a modern accounting system.	Not complied with or slip back. BR reported that it is included in the scope of ongoing TA 3491-BAN: Organizational Reform of Bangladesh Railway Phase III.
m. BR to develop a human resources management system to enhance commercial operation, improve personnel management, and ensure labor productivity.	Accomplished. Workplace assessments have been carried out and a 5-year staffing plan prepared as a part of the corporate plan. Under the Program and reorganization of BR, a new personnel department has been created at the headquarters. Personnel levels have been officially re-sanctioned to 39,532. The human resources management system forms an integral part of this reorganization. Additional substantial staff reductions, designed to reduce costs and increase labor productivity, have been agreed to by the Government and covenanted under the Jamuna Bridge Railway Link Project.	Unclear or ongoing. BR reported that it is included in the scope of ongoing TA 3491-BAN: Organizational Reform of Bangladesh Railway Phase III.

Policy Objectives and Required Policy Actions	Status as Reported in Project Completion Report	Current Status of the Program
n. BR to identify suitable areas of BR's current operations for private sector participation.	Not reported in PCR.	<p>Complied with. BR is increasingly bringing private sectors into segments of its activities with a view to augmenting financial performances and ensuring customer-oriented services. The private sector has been active in these areas:</p> <ul style="list-style-type: none"> a. commercial activities of passenger trains, b. on board services of intercity trains, c. computerized ticketing and reservation system, d. fiber optic telecommunications network, e. refurbishment of passenger coaches, f. cleaning of engines and passenger coaches, g. conversion of non air-conditioned coaches to air-conditioned coaches, and h. maintenance of selected tracks. <p>However, no major privatization initiative has materialized or sustained</p>
5. Policy Objective 5: Develop a rational investment program focusing on asset preservation and revenue generation strategies.		
a. BR to review as appropriate the investment program proposed for railways under the fourth 5-year plan (Tk19.3 billion), to control capital expenditures and to ensure that investments have commercial justifications.	BR has developed a prioritized and downsized investment program (Tk9.7 billion as part of the new corporate plan, which was prepared under the Program).	<p>Complied with. Some of the major investment programs carried out by BR during the fourth 5-year plan (FY1991–1995) were as follows:</p> <ul style="list-style-type: none"> a. rehabilitation of about 236 km MG and 340 km BG track; b. rehabilitation of 100 MG and 50 BG passenger carriages, procurement of 21 BG passenger carriages, procurement of 9 MG locomotives, procurement of 3 cranes for relief trains, and procurement of 80 No. MG bogie wagons to carry a 40 x 40 foot container; c. improvement of the signaling and the telecommunication system; signaling equipment of 7 stations of Dhaka-Chittagong section have been replaced and that of 6 stations of Mymensingh-Jamalpur section have been taken in hand; d. development of existing facilities at the Kamalapur railway station yard; and e. new siding facilities from Sharishabari station to the Jamuna fertilizer factory.
b. BR to concentrate its investment plan outlay on replacement and rehabilitation of worn out assets and to confine capacity expansion to maintenance facilities and to improvements of quality of service and enhancement of revenue generation.	Not reported by PCR.	<p>Partly complied with. Total capital expenditure for the fifth 5-year plan period (FY1998–FY2002) amounted to Tk25.0 billion, of which about half (Tk12.4 billion) was financed by the Government and the balance was from foreign assistance and other sources. About Tk15.3 billion of the Tk25.0 billion was used for building railway link over the Jamuna Bridge and the remaining Tk9.7 billion was for other projects, in line with the level of the fourth 5-year plan.</p>

BANGLADESH RAILWAY: INCOME AND EXPENSE SUMMARY
(Tk '000)

Item	Fiscal Year							
	1995	1996	1997	1998	1999	2000	2001	2002 ^a
A. Operating Income								
Passenger Revenue	930,579	861,225	1,003,634	1,254,439	1,312,884	1,458,223	1,565,716	1,750,000
Parcel Revenue	135,074	115,769	123,903	119,226	134,735	107,736	106,592	170,000
Goods Revenue	1,191,007	1,126,980	1,042,622	1,202,944	1,353,750	1,189,062	1,314,026	1,450,000
Miscellaneous Revenue	400,145	346,942	786,261	732,463	691,289	459,947	477,597	790,000
Receivables	290,000	390,000	350,000	200,000	250,000	200,000	200,000	150,000
Subtotal (A)	2,946,805	2,840,916	3,306,420	3,509,072	3,742,658	3,414,968	3,663,931	4,310,000
B. PSO	778,800	905,400	880,000	860,000	860,000	860,000	860,000	860,000
C. Welfare Grant	137,423	141,250	127,818	144,042	153,286	155,257	156,579	159,793
D. Total Income (A+B+C)	3,863,028	3,887,566	4,314,238	4,513,114	4,755,944	4,430,225	4,680,510	5,329,793
E. Working Expenses								
Administration	1,193,200	1,271,376	1,239,151	1,337,740	1,520,310	1,575,113	1,691,461	1,594,145
Repair and Maintenance	1,275,799	1,323,610	1,406,033	1,431,261	1,511,710	1,582,538	1,678,295	1,628,358
Operations	1,435,286	1,416,935	1,457,343	1,579,468	1,607,083	1,731,205	1,871,251	1,849,074
Suspense ^b	377	3,957	39,159	14,827	27,566	8,900	3,081	0
Subtotal (E)	3,904,662	4,015,878	4,141,686	4,363,296	4,666,669	4,897,756	5,244,088	5,071,577
F. Debt Service	340,877	342,152	197,426	168,594	154,110	192,532	228,586	250,000
G. Total (E + F)^c	4,245,539	4,358,030	4,339,112	4,531,890	4,820,779	5,090,288	5,472,674	5,321,577
H. Working Ratio (E/D)	1.01	1.03	0.96	0.97	0.98	1.11	1.12	0.95

PSO = public service obligation.

^a Forecast.

^b Temporary entry of charges.

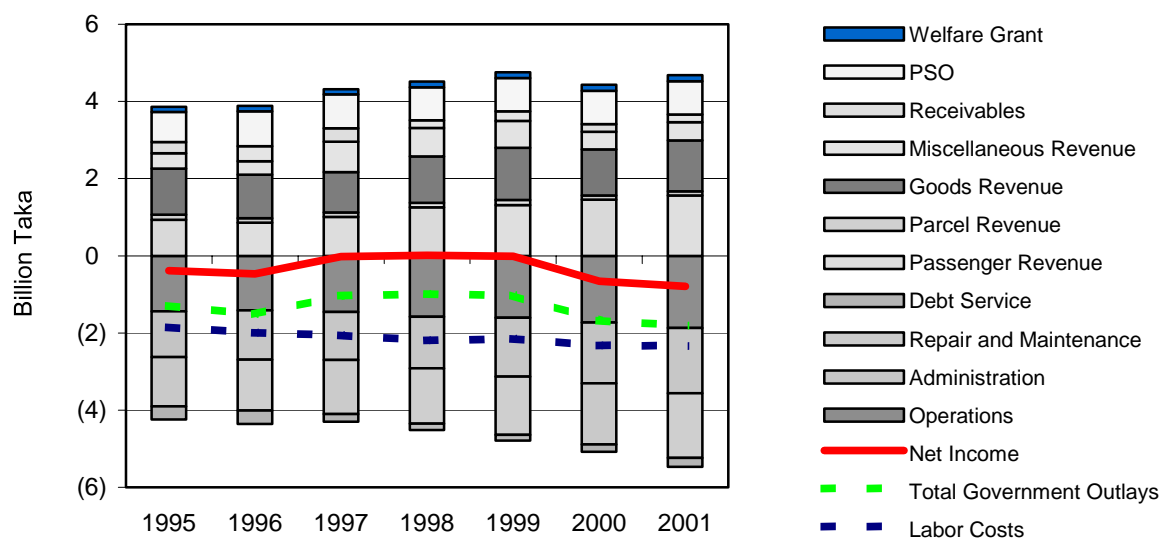
^c Defined as total working expenses plus depreciation in the Report and Recommendation of the President.

Debt service in lieu of depreciation is used here due to lack of information.

Source: Bangladesh Railway.

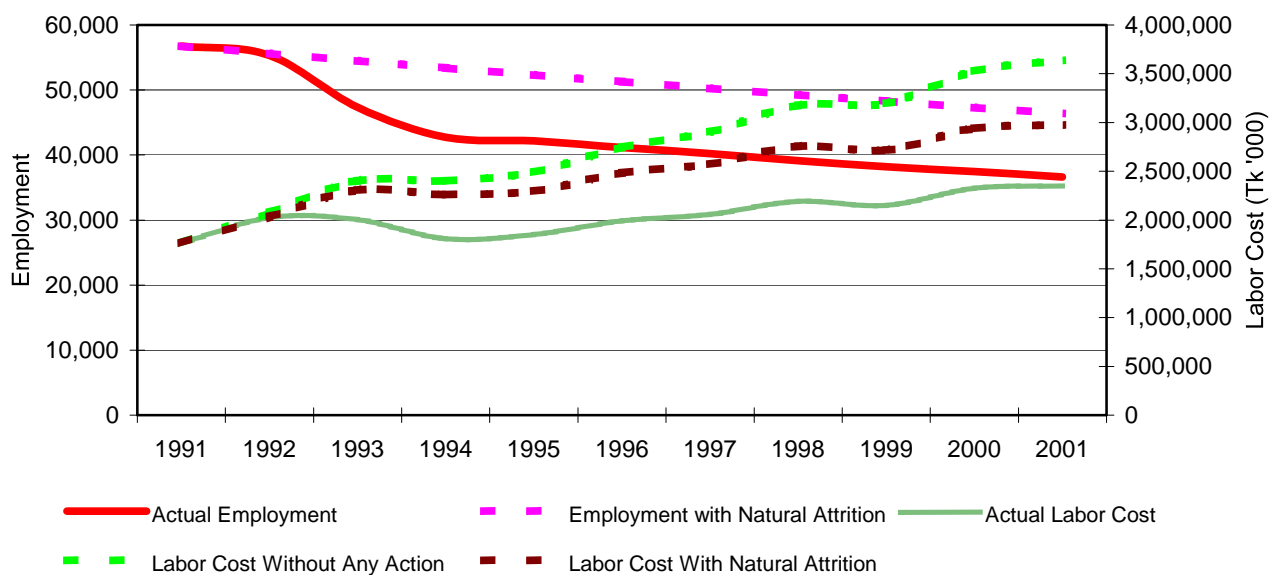
OPERATING REVENUE AND COST BREAKDOWN

Figure 1: Bangladesh Railway Income and Expenses

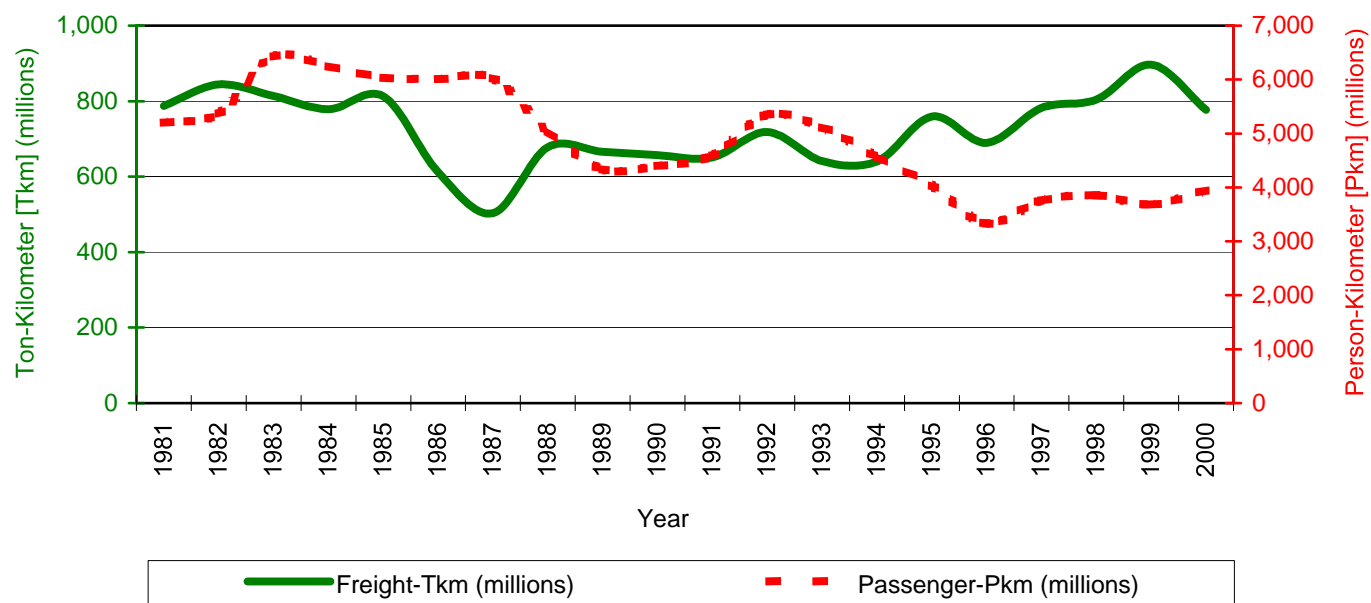


Source: Bangladesh Railway.

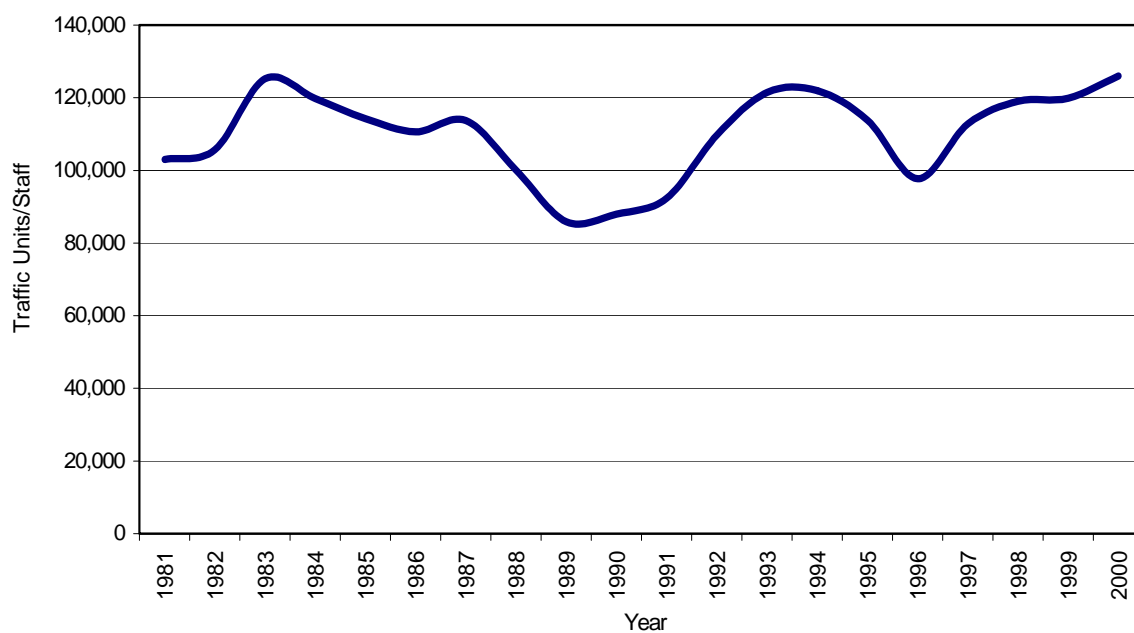
Figure 2: Employment vs. Labor Costs



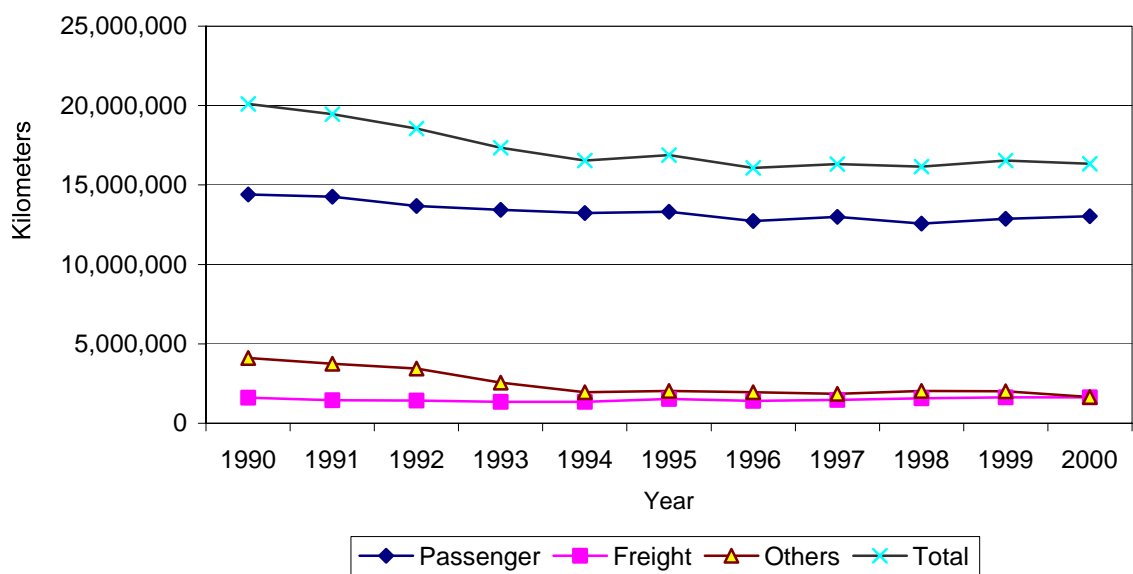
Source: Bangladesh Railway.

Figure 3: Bangladesh Railway Freight and Passenger Traffic

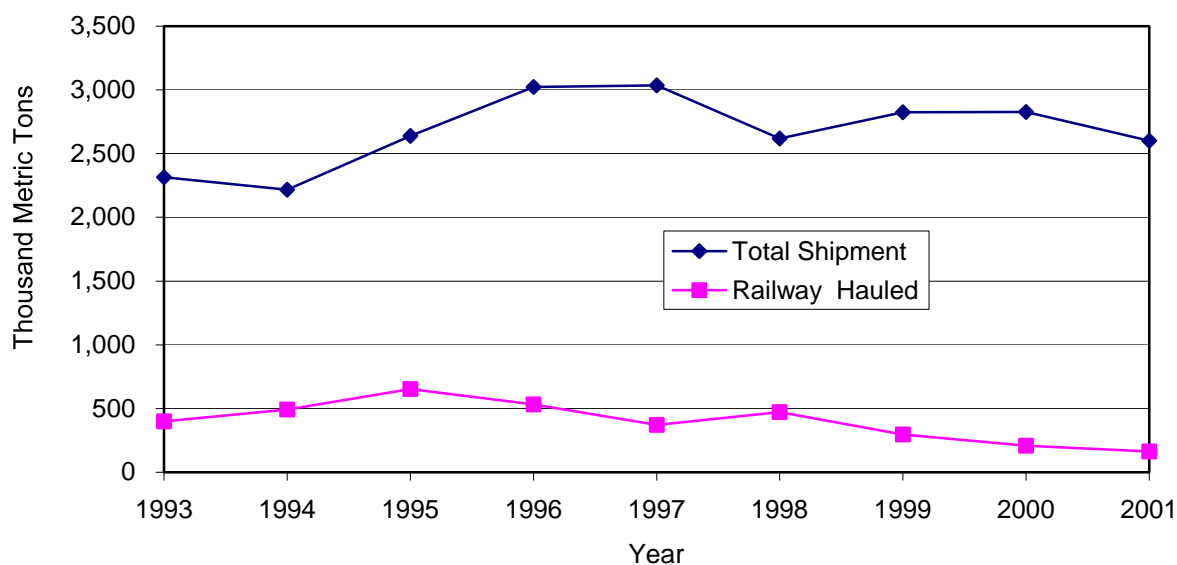
Source: Bangladesh Railway.

Figure 4: Employee Productivity

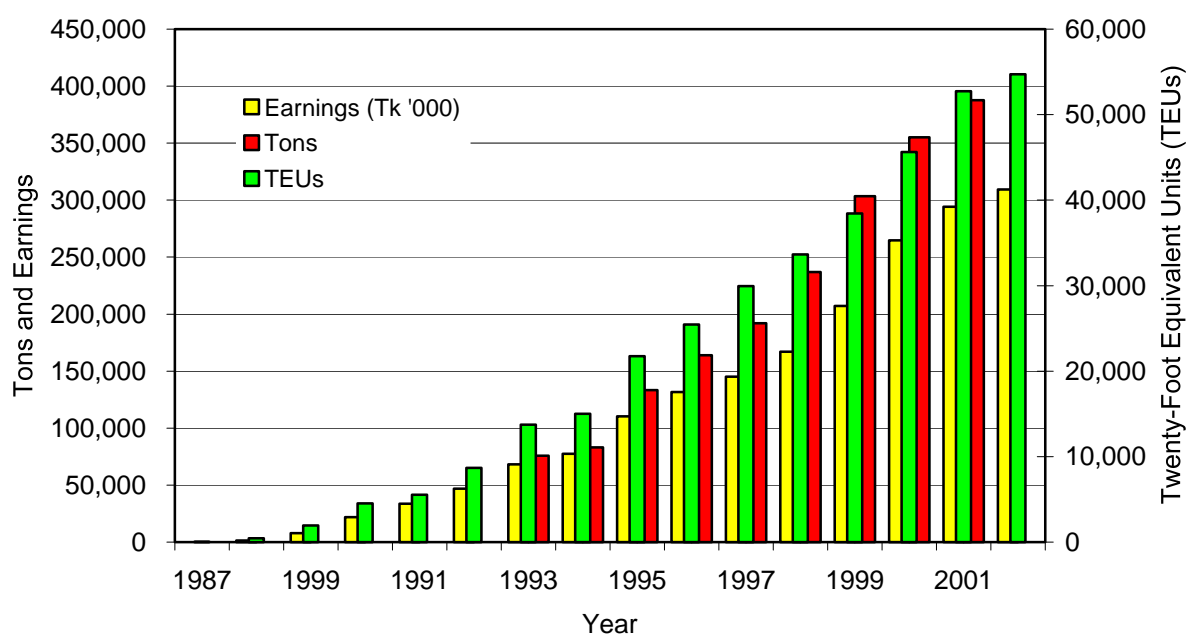
Source: Bangladesh Railway.

Figure 5: Total Engine Kilometers

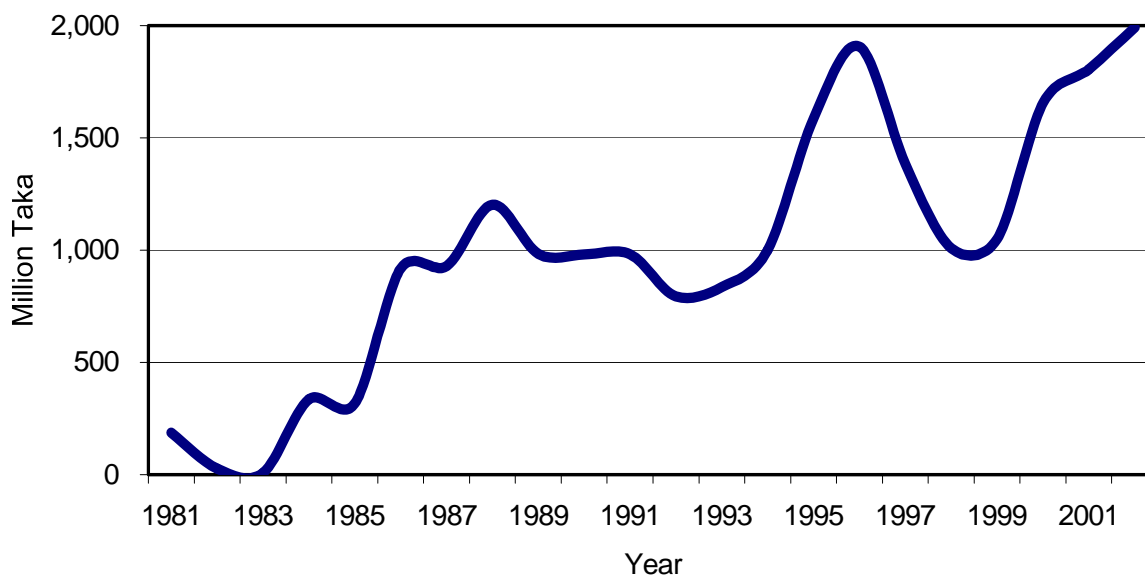
Source: Bangladesh Railway.

Figure 6: Railway's Share of Fertilizer Traffic

Source: Bangladesh Bureau of Statistics.

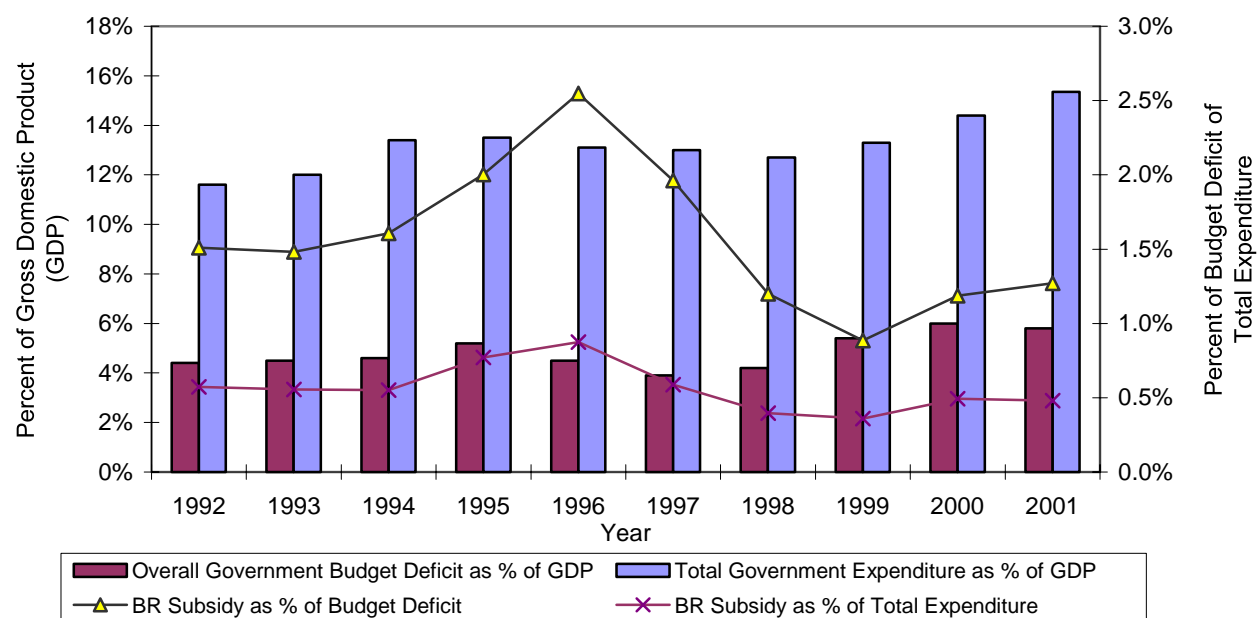
Figure 7: Bangladesh Railway Container Traffic

Source: Bangladesh Railway.

Figure 8: Total Subsidy Toward Railway's Operating Cash Needs (excluding investment)

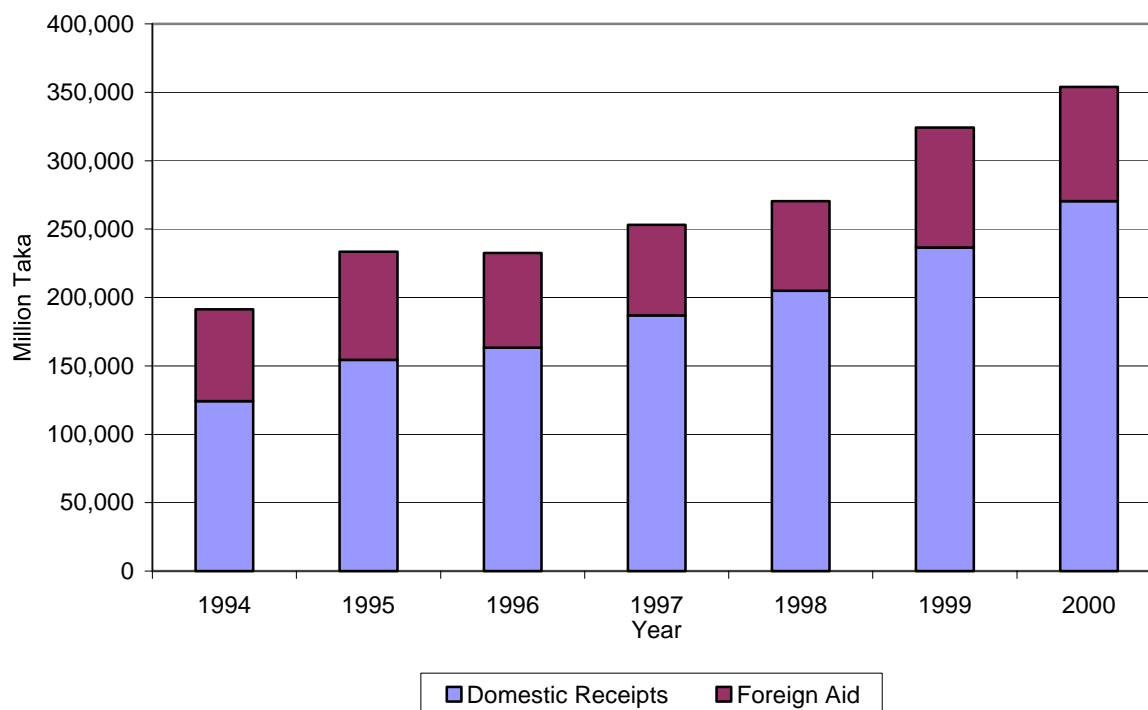
Source: Bangladesh Railway.

Figure 9: Government Expenditure, Deficit, and Bangladesh Railway (BR) Subsidy



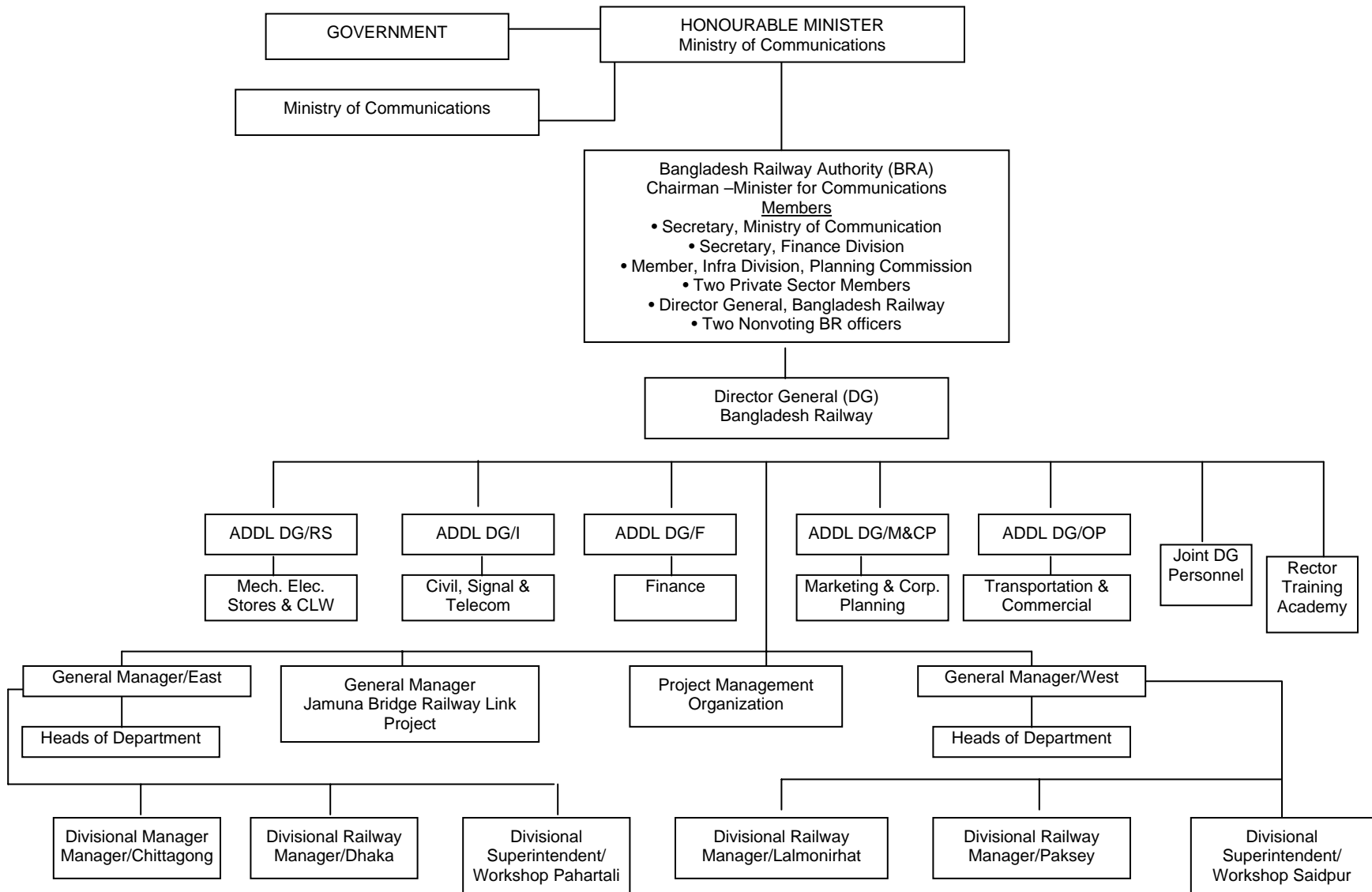
Source: Bangladesh Bank and Bangladesh Railway.

Figure 10: Bangladesh Government Revenue Receipts



Source: Bangladesh Bank and Bangladesh Railway.

ORGANIZATION CHART OF BANGLADESH RAILWAY



Notes: ADDL = Additional, BRA = Bangladesh Railway Authority, CLW= Carriage, Locomotive and Wagon, DG = Director General, F = Finance, I = Infrastructure, M&CP = Marketing and Corporate Planning, OP = Operations, RS = Rolling Stock.
Source: Bangladesh Railway.

FREIGHT TRAFFIC OF BANGLADESH RAILWAY IN FY2000

(Figures in '000)

Commodity	Ton	%	Ton-kilometer	%	Earning (Tk)	%
1. Cement	639.00	22.12	102,722	13.22	1,412.52	11.93
2. Wheat	384.00	13.29	113,377	14.59	1,626.94	13.75
3. Rice	314.00	10.87	88,226	11.35	1,263.49	10.67
4. Fertilizer	177.00	6.13	57,050	7.34	813.01	6.87
5. Oil fuel	160.00	5.54	50,024	6.44	705.97	5.96
6. Marble and stone	107.00	3.70	26,852	3.46	367.67	3.11
7. Railway stores and materials other than fuel	68.00	2.35	11,658	1.50	92.99	0.79
8. Kerosene oil	60.00	2.08	18,268	2.35	259.45	2.19
9. Jute raw	55.00	1.90	15,280	1.97	211.96	1.79
10. Wood unwrought	40.00	1.38	15,001	1.93	208.53	1.76
11. Sugar cane	37.00	1.28	1,215	0.16	64.34	0.54
12. Military traffic	37.00	1.28	11,724	1.51	98.42	0.83
13. Vegetable oil	34.00	1.18	6,378	0.82	90.80	0.77
14. Fuel for the railway	13.00	0.45	3,162	0.41	25.74	0.22
15. Iron and steel	12.00	0.42	3,687	0.47	52.71	0.45
16. Paddy	12.00	0.42	3,490	0.45	47.64	0.40
17. Petrol	12.00	0.42	3,747	0.48	53.89	0.46
18. Livestock	9.00	0.31	1,820	0.23	44.06	0.37
19. Molasses	6.00	0.21	1,880	0.24	25.95	0.22
20. Gram and pulses	5.00	0.17	1,669	0.21	24.15	0.20
21. Sugar	1.00	0.03	1,443	0.19	20.56	0.17
22. Oil seeds	1.00	0.03	337	0.04	4.65	0.04
23. Coal	0.56	0.02	206	0.03	2.89	0.02
24. Tobacco	0.23	0.01	103	0.01	1.70	0.01
25. Tea	0.25	0.01	81	0.01	1.63	0.01
26. Jute manufactured	0.24	0.01	59	0.01	0.80	0.01
27. Fodder	0.22	0.01	40	0.01	0.57	0.00
28. Cotton raw	0.21	0.01	56	0.01	0.78	0.01
29. Provision	0.16	0.01	66	0.01	0.96	0.01
30. Salt	0.06	0.00	9	0.00	0.12	0.00
31. Other grains	0.04	0.00	6	0.00	0.80	0.01
32. Container	355.00	12.29	121,563	15.64	2,646.83	22.36
33. All other commodities	349.00	12.08	115,961	14.92	1,663.51	14.05
Total	2,889	100%	777,160	100%	11,836.03	100%

Source: Bangladesh Railway.

**INVESTMENT IN INFRASTRUCTURE AND ROLLING STOCK
DURING THE FIFTH 5-YEAR PLAN (FY1998-2002)**

Name of Project	Started From (FY)	Completed (FY)	Estimated Cost (Tk million)		
			Local	Foreign Exchange	Total
A. Started Before FY1998 - To be Completed Within FY2002					
1. Shifting of Tistamukh Ghat	1997	1998	77.62	0.00	77.62
2. Organizational Reforms of Bangladesh Railway	1994	1998	3.90	94.42	98.32
3. Modernization and Expansion of Signalling System of 6 Station on Mymensingh Jamalpur Section	1994	1999	18.68	76.04	94.72
4. Emergency Overhauling of 156 MG and 56 BG Locomotives Emergency Overhauling of 40 MG and 16 BG Locomotives - First Phase	1996	1999	200.00	0.00	200.00
5. Rehabilitation of Damaged Track, Bridge, Building, etc. of BR Caused by Flood, 1995	1996	1999	259.95	0.00	259.95
6. Computerized Wagon Control System of BR	1996	1999	10.50	41.90	52.40
7. Procurement of 66 MG and 138 BG Passenger Coaches	1995	2000	861.51	0.00	861.51
8. Rehabilitation of 394 MG and 138 BG Passenger Carriages (Rehabilitation of 83 MG and 28 BG Passenger Carriages First Phase)	1996	2000	300.00	0.00	300.00
9. Improvement of Operating Facilities	1996	2001	124.14	0.00	124.14
10. Technical Assistance of Bangladesh Railway Staff for German Line Locomotives	1996	2001	9.09	112.06	121.15
11. Rehabilitation of Bangladesh Railway under CIDA assistance (Phase II)	1989	2002	660.17	2,054.41	2,714.57
12. Reopening of Jessore-Benapole Branch Line	1997	2002	287.00	11.65	298.65
13. Rehabilitation Works of Bridges of Bangladesh Railway	1997	2002	230.00	0.00	230.00
14. Rehabilitation of Jessore-Benapole Section for Reopening	1997	2001	264.41	0.00	264.41
15. Rehabilitation of Bridges of Bangladesh Railway	1997	2001	230.00	0.00	230.00
Subtotal A					5,927.45
B. Started Before FY1998 - To be Completed After FY2002					
1. Rehabilitation of BR under CIDA Assistance (Phase II)	1989	2003	660.17	2,054.41	2,714.57
2. Expansion of Existing Container Depot at Dhaka	1996	2003	706.78	154.98	861.76
3. Procurement of 10 MG DE Locomotives	1995	2004	221.63	631.50	853.12
4. Rehabilitation of Main Line Section of BR	1996	2005	3,385.22	3,219.09	6,604.31
5. Establishment of Railway Link with Madhyaparra Hard Rock and Barapukuria Coal Mine Areas	1996	2002	574.34	0.00	574.34
6. Establishment of Railway Link over Jamuna Bridge including Approaches at Both End	1997	2003	8,412.14	6,932.35	15,344.49
Subtotal B					26,952.58

**INVESTMENT IN INFRASTRUCTURE AND ROLLING STOCK
DURING THE FIFTH 5-YEAR PLAN [FY1998-2002] (Contd.)**

Name of Project	Started From (FY)	Completed (FY)	Estimated Cost (Tk million)		
			Local	Foreign Exchange	Total
C. Started Since FY1998 - To be Completed Within FY2002					
1. Assessment of loading impact on Bangabandhu Bridge	1998	2000	0.24	3.05	3.29
2. Rehabilitation of Damages of Railway Line, Bridges, Cess and Bank and Other Structuren Caused by Flood, 1998	1999	2002	489.55	489.55	979.10
3. Construction of Railway Link with Mahyapara Hard Rock and Barapukuria Coal Mine Area	1999	2002	351.65	222.69	574.34
4. Feasibility Study for Extension of Railway Line from Dohajari to Coxes-Bazar	2000	2002	14.22	14.22	28.45
5. Remodelling of Sylhet Railway Station	1998	2002	146.00	0.00	146.00
6. Conversion of DA-JYR Section MG Line into BG Line	2000	2002	884.49	948.65	1,833.13
7. Upgrading of Biman Bandar Station from A Class to B Class	2000	2002	89.58	0.00	89.58
8. Remodelling of damages to Rail Line, Bridges, Cess and Bank and Other Structures Caused by Flood, 1998	1999	2002	489.55	530.48	1,020.02
9. Feasibility Study for Extension of Railway Line from Dohazari to Cox's Bazar	2000	2002	29.52	0.00	29.52
Subtotal C					4,703.43
D. Started Since FY1998 - To be Completed After FY2002					
1. Procurement of 15 nos. of Locomotives and 525/1050 nos spl type of wagons for Transportation of Extracted Hard Rock	1999	2004	1,608.83	3,511.94	5,120.77
2. Remodelling of 258 MG and 110 BG Passenger Carriages - Phase II	2000	2004	741.98	0.00	741.98
3. Remodelling of damages to Rail Line, Bridges, Cess and Bank and Other Structures Caused by Flood, 2001	2001	2003	19.74	78.92	98.66
4. Organization Reform of Bangladesh Railway (Phase III)	2000	2003	20.35	37.44	57.79
5. Regional Rail Traffic Enhancement Program	2001	2003	22.13	38.04	60.17
Subtotal D					6,079.37
Total (A+B+C+D)					43,662.83

BG = broad-gauge, CIDA = Canadian International Development Agency, FY = fiscal year, MG = meter-gauge.