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Q1: Respondent details

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Q2: Country or Customs territory

BOSNIA & HERZEGOVINA

Q3: OrganizationOther (please specify)
International Financial Institution

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Q4: Title of case story

Rehabilitating railway infrastructure in Bosnia and Herzegovina with EBRD's support

Q5: Case story focus

Infrastructure upgrading and the development of related services markets, including through support for investment climate reforms.

Q6: Case story abstract

Bosnia and Herzegovina's endowment of natural resources has historically supported the production and exports of commodities as well as a relatively diversified manufacturing sector. However, years of under-investment and the consequences of conflict had left the transport infrastructure network in a dilapidated state. The EBRD's projects in Bosnia and Herzegovina on railway rehabilitation involved building new tracks, reconstructing tunnels, and installing new signaling systems in the course of two investment projects. In the long run, improved infrastructure would be expected to support expansion of the local private sector and forging closer linkages with wider regional markets.

Q7: Who provided funding?Other (please specify)
International Financial Institutions and others**Q8: Project/Programme type**

Single country

Q9: Your text case story

Bosnia and Herzegovina's endowment of natural resources has historically supported the production and exports of commodities as well as a relatively diversified manufacturing sector. However, years of under-investment and the consequences of conflict had left the transport infrastructure network in a dilapidated state, with predominantly single track railways and outdated infrastructure. These constraints all affected speed and efficiency of rail transport. Today, rail transport infrastructure has again become a cornerstone for heavy industry and may enable further economic development by ensuring transport connectivity for products and exports. Particularly bulky commodities like metal, steel

and aluminium depend on good railways to be exported north to European Union countries or to the Adriatic ports to reach destinations further afield.

The country's two main railway tracks run almost 400km north-south connecting Bosnia and Herzegovina with the European railway corridor X to the north and the Adriatic port of Ploce to the south; and almost 300km east-west, connecting with Serbia, Montenegro and Croatia. For the country to fulfil its economic potential, it is essential to further develop and integrate its regional infrastructure, as well as to ensure the future sustainability of transport system. Many of the country's largest companies are located along the route – exporters of iron ore, steel manufacturers, aluminium producers and manufacturing activities – benefitting from the strategic location between Western Europe, Turkey and other emerging markets. However, rail freight traffic had almost entirely collapsed following the conflict in the early nineties, partly due to the destruction of assets and partly due to the bad state of the infrastructure, all of which rendered rail transport uncompetitive compared to road transport.

Freight traffic amounted to 30 million tons prior to the war, but dropped to a mere one million tons around the year 2000. It has since recovered with around 8 million tons in 2004/05, and amounted to around 13 million tons in recent years. Exports of Bosnia and Herzegovina have been steadily rising in recent years, from USD 3.8 billion in 2009 to USD 5.8 billion in 2014, dominated by metals with a share of 20 per cent, followed by machinery with 12 per cent and footwear with almost 10 per cent. These positive developments further substantiate the importance of transport connectivity for the country's development.

The EBRD's projects in Bosnia and Herzegovina aimed to support restructuring and expansion of the local private sector and forging closer linkages with wider regional markets, including through infrastructure improvements. The EBRD has been involved in two projects for railways involving rehabilitation, building new tracks, reconstructing tunnels, and installing new signaling systems. The first project was signed in 2001 with a total project cost of EUR 56.4 million (of which EUR 21 million by EBRD), the second project was signed in 2004 with a project cost of EUR 194 million (of which EUR 70 million by EBRD). Both projects were co-financed by EIB and supported by multiple other donors. Japan, for example, provided funds to help rebuild the Jedrinje tunnel, on the railway line between Sarajevo and Mostar, while the European Union, Italy, United States and Canada supported the project's planning stages. Both projects also form part of the Trans-European Transport Network (TEN-T), a context in which EBRD also financed multiple road rehabilitation projects.

More specifically, the EBRD and EIB provided a 15 year sovereign Loan of EUR 140 million to Bosnia and Herzegovina in 2005 for on-lending to the railway entities. The loan was complemented by a local contribution of EUR 24 million and technical cooperation/advisory funding of EUR 5.3 million. Planned investments included, for example:

- track overhaul of EUR 110 million,
- signalling facilities (approx. EUR 24 million),
- telecommunications (approx. EUR 4 million)

"Before the tracks were changed, we could only run at 50 km/h," reports a train conductor. "Now we can drive at 70, 80, some sections even at 90 km/h." These improvements are an important time-saver for the many freight trains that travel the route, potentially providing beneficiaries faster and more reliable trade connectivity.

The projects also sought to improve operational efficiency of the sector through administrative and regulatory reforms. These included staff retrenchments to reduce operating costs, improving environmental and health standards, and introducing open tendering for all sub-projects. Regulatory reforms were another key cornerstone, given the complexity of the sector. Under the roof of the Bosnia And Herzegovina Railways Public Corporation (BHRPC), two entities (one for Federation of Bosnia and Herzegovina and one for Republika Srpska) are responsible for operations. A new Railway Law was passed in 2005 with the Bank's policy advice support and provides the preconditions for further reforms and restructuring (e.g. separation of infrastructure and operations, creation of a State Railway Regulatory Board) but implementation on the ground has proven difficult due to political issues and vested interests.

Overall, in the 2000s the railway sector relied heavily on subsidies, but since then, commercialisation has made some progress and freight traffic could potentially be self-funding in the medium run, given the demand from large enterprises along the tracks. Smaller enterprises also benefit from better infrastructure, including agricultural producers exporting to the EU.

The long-term benefits of these projects for connectivity are significant. Better and safer transport links benefit both thousands of Bosnian citizens and businesses – and they will help set the country on the right track to a prosperous future.

Q10: Lessons learnt

- Further reforms in transport sector also need to focus on horizontal (soft) measures that complement the development of infrastructure and increase the quality of transport services. It is important to improve and harmonize regional transport policies and technical standards. These are necessary for the creation of a competitive and resource efficient transport system.
 - The projects were conducted in a complex environment, given the post-conflict situation in Bosnia and Herzegovina, and the institutional structure of multiple railway entities, adding complexity to an already difficult situation in the railway sector.
 - Overcoming the legacy of railway structures deeply integrated into state/public sector functions proved to be a challenge, and institutional reforms proceeded more slowly than expected.
 - Ex-post evaluations for some components found them to have been overall successful, although institutional reforms were sometimes hampered by limited political willingness and ability to implement what amounts to substantive and difficult structural reforms in the sector.
 - Overall, fundamental reforms of key sectors in challenging environments as in this project would benefit from an even greater strategic engagement with a broad range of stakeholders, and a complementary high-level policy dialogue.
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