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Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 25-Sep-2017 | Report No: PIDISDSA21528

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Bosnia and Herzegovina	P161122	Republika Srpska Railways Restructuring Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EUROPE AND CENTRAL ASIA	14-Aug-2017	07-Dec-2017	Transport & ICT
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Bosnia and Herzegovina, Republika Srpska	Republika Srpska Railways	

Proposed Development Objective(s)

The Overall Development Objective of the Transport Sector Modernization Program (TSMP) is to improve transport connectivity of the country along priority transport links and to support improvements in transport operations and asset management practices. The Program is multi-phased with a First Phase including road sections in the Federation of Bosnia and Hezegovina, and the Second Phase including railways in the Republika Srpska.

The Development Objective of the Second Phase of the TSMP is to improve the operational efficiency and financial sustainability of the railways in Republika Srpska.

Components

Financial restructuring
Workforce restructuring
Organizational restructuring

Financing (in USD Million)

Financing Source	Amount
Borrower	88.50
International Bank for Reconstruction and Development	60.56
Total Project Cost	**149.06**

Environmental Assessment Category

B - Partial Assessment

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **After modest post-crisis recovery, Bosnia and Herzegovina (BiH) continues to struggle with structural problems that undermine economic growth.** Following the global financial crisis (2008/2009) and subsequent euro area crisis leading to a double-dip contraction of the economy, the country experienced the beginning of a moderate economic recovery in 2013 when growth reached 2.4 percent. This was interrupted by the floods of May 2014 which impacted almost all sectors of the economy and slowed growth to 1.1 percent in 2014. Following the floods of 2014, and supported by stronger net external demand, the economy recovered in 2015 achieving growth of 3.1 percent. At the same time, the current account balance narrowed down from -7.2 percent of gross domestic product (GDP) in 2014 to -4.3 percent of GDP in 2016 primarily on the back of weaker imports, with lower oil prices bringing down imports of related products. Although deficits remain relatively moderate, the fiscal sector is still characterized by a high tax burden and inefficient patterns of spending. In a medium-term, supported primarily by rising domestic demand, economic growth is projected to strengthen from 3.1 percent in 2016 to 3.5 percent by 2019.

2. Bosnia and Herzegovina (BiH) is a state comprising two entities, each with a high degree of autonomy: the Federation of Bosnia and Herzegovina (FBH) and Republika Srpska (RS). The district of Brčko was added to the structure in 1999. The country's complex political system poses significant challenges in developing comprehensive sectoral policies and efficiently confronting emerging development priorities but authorities in BiH have been pursuing a jointly-authored reform agenda that centers on the goals of macroeconomic stability, export-led economic growth, employment and social cohesion, and sustainable development. The overarching aim of the reform agenda is EU accession.

3. Progress on poverty reduction remains slow. Latest available figures suggest that between 2007 and 2011 the poverty headcount remained stable at the national level. While poverty incidence in 2011 was similar at the sub-national levels, it was much higher in rural areas, at 19 percent, compared to 9 percent in urban areas. Unlike poverty, for which there is little difference between FBH and RS, the bottom forty percent income group (B40) of BiH is disproportionately represented in RS partly due to its smaller share of urban population but also because the urban population in FBH has higher welfare income on average than the urban population in RS.

4. BiH is vulnerable to heat waves, flooding and droughts. These events may become more common in the future with severe negative impacts for people and the economy. For instance, the negative impacts of the heavy floods in May 2014 in BIH were estimated at 15 percent of GDP. A joint EU-UNDP-World Bank led Recovery and Needs Assessment estimated that the cumulative impacts could significantly slow growth, increase poverty and put pressure on public finances.

5. BiH has one of the world's largest public sectors relative to the size of its economy, with general government expenditures at 43.7 percent of GDP in 2016. Enhancing expenditure efficiency can therefore significantly improve economic growth and help reduce poverty. The efficiency of the railway sector and the necessary budgetary support are issues of major concern to both Entities.

Sectoral and Institutional Context

6. The railway sector is administered and managed at the State level by the Ministry of Communications and Transport (MoCT), and at the entity level, by a separate Ministry of Transport and Communications (MoTC) in each entity. BiH's legal framework for the railways sector has established a two-railway system. Figure 1 is a functional map broadly describing the 'de facto' roles of the main institutions.

Table 1. Distribution of railway sector functions among institutions in BiH

<table>
<tr><th>Function</th><th>Federation of Bosnia and Herzegovina</th><th>Republika Srpska</th></tr>
<tr><td>BiH multi-modal transport strategy (preparation in progress)</td><td colspan="2">Council of Ministers (CoM) of BiH in collaboration with the Entities and Brčko District</td></tr>
<tr><td>International railway economic and safety regulation</td><td colspan="2">BiH Rail Regulatory Board (RRB) reporting to CoM</td></tr>
<tr><td>Inter-entity technical standards & coordination</td><td colspan="2">BiH Railways Corporation (BHŽJK) reporting to the Entities</td></tr>
<tr><td>Entities' transport policies</td><td rowspan="3">Government of FBH (MoTC, MoF)</td><td rowspan="3">Government of RS (MoTC, MoF)</td></tr>
<tr><td>Intra-entity railway policy, planning and regulation</td></tr>
<tr><td>Public budgetary support</td></tr>
<tr><td>Ownership of railway company</td><td>Government of FBH and some private shareholders</td><td>Government of RS, pension fund and some private shareholders (20%)</td></tr>
<tr><td>Railway network infrastructure management</td><td rowspan="2">Željeznice Federacije Bosne I Hercegovine (ŽFBH)</td><td rowspan="2">Željeznice Republike Srpske (ŽRS)</td></tr>
<tr><td>Railway transport operations</td></tr>
</table>

7. The ŽRS railway network consists of 426 route-km (of which 353 route-km are in use) making it one of the smallest networks in the Western Balkans. The backbone railway route is the east-west line from the border with Croatia via Novi Grad, Banja Luka to Doboj. There it meets RS's section of the north-south Pan-European Railway Corridor Vc (which constitutes part of the Indicative Extension to the TEN-T Mediterranean Core Corridor). It also provides a link eastward from Doboj to ŽFBH's network centered on Tuzla (see map in Annex 8). The operational network is standard gauge (1,435mm) predominantly single track (94 percent) and electrified at 25 kV (88 percent). The maximum rated design speed on the main line is generally 100km/h, and many sections have been rehabilitated to this standard. ŽRS freight traffic density of about 1.2 million tonnes/route-km is relatively high compared to neighboring countries and about equal to the EU average. In 2015, it carried around 5 million tonnes of freight and 428 million net tonne-km (ntkm).

8. ŽRS has been generating operating losses on a yearly basis (Annex 6). This is partly due to previous railway employment policies that have led to excessive labor costs, and partly due to underfunded passenger service losses. Over 97 percent of the company's traffic and revenue are from freight, but nearly half of all the train distance run (49 percent) is for passenger services. During the period 2007-2014, the company's annual working ratios (operating costs less depreciation and debt repayments, divided by commercial revenue) prior to budgetary contributions ranged from 1.43 to 2.13, indicating substantial (and fluctuating) commercial deficits. Entity budgetary support, although allocated to infrastructure and passenger services, is used to finance operating deficits bringing the company's total income closer to its operating cost (less depreciation and debt repayments). The annual working ratios (with budgetary support) varied over the period between 0.93 and 1.09.

9. These deficits do not include repayment of debt obligations which have been accumulating and accruing interest and penalties over the years further worsening the financial sustainability of ŽRS. Budgetary contributions are effectively being used to keep the railway sector on 'life-support'. The principle of budgetary support of railways is acceptable under the EU rail acquis but only for validated contracts for infrastructure investment and maintenance and public service obligations for passenger transport. However, this is not the case for ŽRS where budgetary support is essentially used to finance deficits in operating expenditures.

10. Heavy overstaffing in ŽRS has resulted in the lowest labor productivity levels in the region (see component 2 in Section IIIA). As a result, labor costs are a disproportionate share of the cost structure of ŽRS. In 2014, the wage bill was 64 percent of operating costs and 108 percent of commercial revenues (excluding Entity subsidies), having averaged 61 and 125 percent respectively over the 2007-1014 period.

11. Because deprecation is unfunded, ŽRS has no financial resources for systematic investment. Instead ŽRS is wholly dependent on ad hoc financial support from the Entity government for meeting debt repayment obligations associated with prior investment as well as for future capital needs. Debt service payments are made on behalf of ŽRS by the Entity government but charged to the railway account becoming an obligation to the railway companies, an obligation that is difficult to meet. The current outstanding debt including accrued interest related to capital investment in infrastructure and locomotives is estimated at about EUR 75 million.

12. ŽRS does not keep separate sector accounts for its freight and passenger businesses but the Bank team assessed the underlying financial performance of each business (See Annexes 4 and 6). The analysis for 2014, for example, shows that passenger services generate a deficit of BAM 14.2 million after receiving budgetary support for these services of BAM 2.5 million. The budgetary contribution is therefore insufficient to fund the cost of services. In contrast, freight transport generated a surplus of BAM 14.2 million that year that was used to cross subsidize passenger services. To adopt the EU railway acquis, ŽRS will need to phase out such cross-subsidy and replace it with a commercially-based passenger public service contract for those specified passenger services deemed necessary by the government.

13. The RS Government sees the restructuring of its railway sector as a policy priority. Not only is the sector financially unsustainable in its current form but there is an overarching policy challenge to meet the provisions of EU-Bosnia and Herzegovina Stabilization and Association Agreement (2015) as they apply to the railway sector (the 'EU railway acquis'). Confirming to the acquis requires action by the RS Government in several areas: ŽRS's organizational structure, track access, budgetary support for passenger services, budgetary

support for infrastructure, and debt sustainability. The restructuring is backed by a new Railway Law passed in 2016 to harmonize the railway sector with the EU rail acquis, restructure ŽRS to promote its financial stability, and for the railway network to be integrated into the European network.

14. In addition, the BiH Council of Ministers and the entity governments endorsed a medium-term Reform Agenda in July 2015, which serves as a blueprint for structural reforms. The Agenda entails reforming state-owned enterprises through privatization, restructuring, or bankruptcy. Restructuring ŽRS will be a cornerstone of this process, as it will be the first of its kind to be undertaken in the RS.

15. It is imperative for ŽRS to become more financially sustainable and commercially-focused. In the short-term this is needed to make the railway sector publicly affordable. In the longer-term it is necessary to give the industry a better chance of sound growth and success in an integrated European transport market as well as avoid the erosion of the railways modal share and loss of traffic to roads which would contribute to an increase in Greenhouse Gas (GHG) emissions, road accidents and fatalities. In this context, the World Bank prepared a Railways Policy Note to assist the governments of the Entities in Bosnia and Herzegovina to better understand the current conditions of the railway sector, assess the policy options for modernizing it and help chart a course ahead. Following the preparation and discussion of the Policy Note, the RS Government prepared a Letter of Sector Policy (Annex 7) establishing the Government's vision and strategy for the railway sector and requested Bank support in modernizing the sector with a focus on the following two main areas:

(a) Ownership and financial restructuring aimed at repaying employee-related debts, converting government debt into equity, and making ŽRS a one-shareholder government-owned joint-stock company. This would deleverage and recapitalize the company, and relieve it of historical and unsustainable debts in a manner consistent with EU acquis. This would in turn enable the government to buy out minority shareholders under the recently enacted bankruptcy law, prepared with IFC support (see box below), to facilitate complex restructurings of large corporates such as ŽRS while offering (i) protection with respect to a buy-out of minority shareholders (who received free allocations through vouchers in the early 1990's) and (ii) a higher degree of certainty over the time and costs with such restructuring. The government will use its own resources to buy out the affected shareholders at a fair and reasonable price.

(b) Organizational transformation of ŽRS to: (a) restructure the workforce to reduce operating costs and raise productivity to acceptable norms; and (b) bring ŽRS in line with European railways with respect to EU railway acquis, accounting regulations, and commercial management methods while continuing to invest in railway lines and services which the government considers essential to the economy.

16. Sound railway asset management plans are also critical to enhance the resiliency of the transport network and its ability to better cope with extreme weather events. Repairing the damages to the railway network in BiH following the 2014 floods was estimated to cost about 50 million Euros, and the economic losses associated with network disruptions were estimated at about 35 million Euros.

17. While the full benefits of an efficient railway system in BiH will be achieved when the railway companies in both Entities are modernized, benefits of ŽRS reforms will be achieved regardless of any reforms in ŽFBH. Moreover, the RS Government has the legal powers and responsibility to take all the necessary actions for the desired reforms in ŽRS.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

18. The Overall Development Objective of the Transport Sector Modernization Program (TSMP) is to improve transport connectivity of the country along priority transport links and to support improvements in transport operations and asset management practices. The Program is multi-phased with a First Phase including road sections in FBH, and the Second Phase including railways in the RS.

19. The Development Objective of the Second Phase of the TSMP is to improve the operational efficiency and financial sustainability of the railways in Republika Srpska.

Key Results

20. Key results include an improved financial sustainability as measured as the capacity of ZRS to cover operating and maintenance costs, an improved operational performance, measured as the labor productivity and a longer term sustainability measured by the implementation of public service obligations contracts for passenger services and for infrastructure.

D. Project Description

21. The Project addresses the urgent financial problems facing the RS's railway sector, create a proper framework for public financing, restructure its management and support a more commercial approach to running the railway businesses.

22. This Project epitomizes the value added that the Bank can bring to its clients. The Bank team was requested by the Client to prepare a policy note charting the different reform options based on the Bank's experience in railway reforms worldwide and particularly in the region and our understanding of the EU railway acquis. Following the completion and discussion of the Policy Note with Senior Government Officials, the RS Government requested the Bank's support in implementing the difficult reforms. The Bank will not finance infrastructure, it will finance employee-related debt repayments, labor retrenchment and other activities that require public sector financing and strong involvement. Completing the main sector reforms will afford private operators interested in service provision the opportunity to compete either for, or in, the freight transport market once BiH joins the EU.

23. The Bank's Project will support the restructuring of ŽRS through the following components:

Component 1: Financial restructuring (EUR 117.7 million, IBRD financing of 42.7 million)

24. Relieving ŽRS of this historical debt burden associated with IFI and bilateral loans for capital investment is imperative to provide the company a fresh start as it will not be able to repay these loans. This is also

necessary for the financial sustainability of ŽRS. This will be achieved through a debt-to-equity conversion to be implemented by RS Government on the amount of approximately EUR 75 million. ŽRS needs to pay existing and accruing debts towards its employees before it can proceed with the conversion.

25. ŽRS currently has about BAM 83.5 million (EUR 42.7 million, USD 50.4 million) in debts and provisions related to its employees. These include (i) direct debts to employees for benefits and allowances, (ii) employer's contributions to pensions, health insurance and other social accounts, (iii) employer's contributions to employee taxes, (iv) interest and expenses related to litigation with respect to outstanding debts, and (v) penalties and interest for late/outstanding tax payments. The repayment of staff debts prior to a staff retrenchment program is not only an issue of social responsibility but also an important enabler of financial restructuring because as creditors of ŽRS, staff could seriously hinder restructuring proposals in the bankruptcy court. Table 2 below describes these debts.

Table 2: List of arrears related to ŽRS employees

Type/Description	Amount (BAM million)
(i) Direct debts to employees for benefits and allowances	
Reimbursement of transport to work for eligible employees[1]	2.3
Reimbursement of km for locomotive drivers[2]	0.4
Reimbursement for meals and leave allowance[3]	23.7
(ii) Contributions (on salaries, meal allowance and paid leave allowance)[4]	29.0
(iii) Employers contribution for employees' taxes[5]	5.9
(iv) Lawsuits on labor disputes	10.6
(v) Penalties and interests	11.6
TOTAL	83.5

26. ŽRS will use proceeds of the Bank's loan to repay the company's outstanding debts to employees and related debts (other than the interest and penalties on late employee taxes which will be borne by the Government) and thereafter, under the protection of the RS's bankruptcy court, the Government will implement the debt-to-equity conversion, freeing ŽRS of all existing debts.

27. Prior to proceeding with the restructuring, ŽRS will have credible and realistic organizational plans and business plans, including commitments between the RS Government and ŽRS that guarantee financing while holding ŽRS accountable for meeting agreed operational and financial targets. These plans would minimize the risk of ŽRS building up new debts.

[1] Eligible employees are those living more than 4 km away from a train station or without a convenient railway connection.
[2] Benefit specific to train drivers (in lieu of meal allowance). Amount not submitted to taxes and contributions.
[3] Leave allowance for all employees; meals for all employees, excepting train drivers
[4] Contributions represent 33 percent of the gross salary, and are split into 18.5 percent to the pension fund, 12 percent to the health system, 1.5 percent to child protection and 1 percent to unemployment, and further split into 20 percent to local authorities and 80 percent to the Entity
[5] Taxes represent 10 percent of the gross salary, and are also split into 20 percent to local government and 80 percent to the Entity government.

Component 2: Workforce restructuring (EUR 3.5 million, IBRD financing of 100 percent)

28. Workforce restructuring is an essential element of Project design as employment and labor costs are currently at unsustainable levels. Currently, ŽRS has about 3,100 employees and its labor productivity6 is around 146,000 TU/employee, the lowest in the region (other than Albania) and about a quarter of the EU average. ŽRS has more employees than it had in 2005, as result of previous job creation policies rather than commercial needs, and the highest number of employees/route-km of any railway in the region.

29. Labor costs are, as a consequence of excess employment, a disproportionate component of the cost structure of ŽRS. In 2014, the wage bill was 64 percent of operating costs7 and 108 percent of commercial revenues (excluding Entity subsidies). The RS MoTC expects that the reduction of number of ŽRS employees in the near-term will be about 1,000, including 500 in 2018 and a further reduction of about 500 by latest 2020. This would boost the average productivity of labor to a level closer to the mid-point of the regional range. The sooner the labor force is optimized, the sooner ŽRS will have additional resources that would help ensure financial sustainability and avoid the risk of building new arrears.

30. This component will include (i) support for compensation packages for up to 1,000 employees over the period 2017-2020, (ii) support to retrenched employees in the form of training and counseling to convert to other sectors of the economy, and (iii) implementation of a Human Resources (HR) management system to introduce compensation based on performance and to provide up-to-date information on staff structure.

31. Workforce optimization will take place through retirement, voluntary separation by providing attractive packages and applying involuntary separation for cases when staff do not meet minimum qualifications for the position, and cannot be reassigned elsewhere. Retrenched workers will also be eligible to benefit from the WB funded Employment Support Project (P152347), which will, in particular, finance targeted wage subsidies, on-the-job training, and a self-employment program. The retrenchment plans will include gender disaggregated information and clear criteria for non-discriminatory processes for identifying redundancies, and corresponding grievance redress mechanisms related to retrenchment.

Component 3: Organizational restructuring (EUR 5 million, IBRD financing of 100 percent)

32. The objectives of the organizational restructuring are (i) to provide ŽRS with the appropriate mechanisms to support its long term financial sustainability and (ii) to harmonize its organizational structure with the EU railway acquis while at the same time creating clarity, focus and independence in infrastructure and operating roles. This is intended to improve the commercial management of each function and enhance their ability to determine their own business strategies in the context of a European railway system in which each will have different opportunities and constraints, and sometimes different interests. Specific objectives of this component include:

- Planning and implementation of a new, more commercial ŽRS organization structure consisting of a corporate core plus two independently managed and separately accounted business divisions, one for infrastructure management and one for transport operations. Within the operating department sector accounts would be kept for freight business and passenger business.

[6] Average traffic units per employee, where the total traffic units are the sum of tonnes-km and passenger-km.

[7] Defined for this purpose as expenditures related to materials, fuel, electricity, salaries and allowances, outsourcing and other services, and depreciation.

- Specification, procurement and implementation of a modern and effective financial accounting system including core *general ledger functionality,* accounts, payroll, assets and inventory, funds management etc: specification and application of such system must be geared to railway businesses and the specific financial and enterprise resource planning, budgeting and management needs of ŽRS's independently managed divisions (sector accounting).

- Specification and implementation of (i) a railway infrastructure asset management system for the Infrastructure Division and (ii) a rail operations asset management system for the Operating Division.

- Development of commercially-driven and financially attainable and sustainable medium-term (2019-2023) Business Plans (including marketing plans), based on good railway practices and experiences, for the constituent divisions and subsidiaries of ŽRS;

- Development, adoption and implementation of a multi-annual Public Passenger Services Contract (PSC) to be agreed between ŽRS (Operating Division) and government of RS together with proposed annual contract prices and payment arrangements consistent with the Operations Division Business Plan for passenger services.

- Development, adoption and implementation of a multi-annual Infrastructure Contract (MAIC) and proposed contract price and payment arrangements to be agreed between ŽRS Infrastructure Division and the RS Government consistent with the Infrastructure Division Business Plan.

- The combination of expected improved commercial performance plus contractually-based government contributions for passenger services and infrastructure operations in accordance with the EU rail acquis, when properly estimated through the new sector accounting, would mean the company should become financially sustainable.

- Capacity building for MoTC and ŽRS management and staff as necessary and other activities supporting organizational change.

33. This component will also finance technical assistance to support ŽRS in the implementation of the Project as necessary and particularly in two areas: support with organizational restructuring, accounting and business systems; and support with business planning and establishing contractual relationships with government. In addition, a Disbursement-Linked Indicator (DLI) audit consultant will be hired to verify the eligible expenditures for disbursement.

34. This component will follow standard procurement for services. Terms of Reference for consultant services are being finalized so that the consultants would be available to support the implementation of the operational restructuring as soon as the proposed Bank Loan would be effective.

Loan Instrument

35. While the loan instrument is an IPF, the Project will use a results-based approach (disbursement linked indicators) to incentivize the achievement of the desired outcomes, not only those related to ownership restructuring and resettlement of debts but also labor force optimization and implementation of key recommendations and plans. The use of the IPF with DLIs is best suited for this project due to the strong need

for implementation support on difficult organizational, financial and workforce restructuring during implementation.

36. To incentivize the implementation of the operational efficiency and reforms and organizational restructuring, a larger amount of the loan disbursement is associated with indicators in these areas (see Table A1.4 in Annex 1 for details).

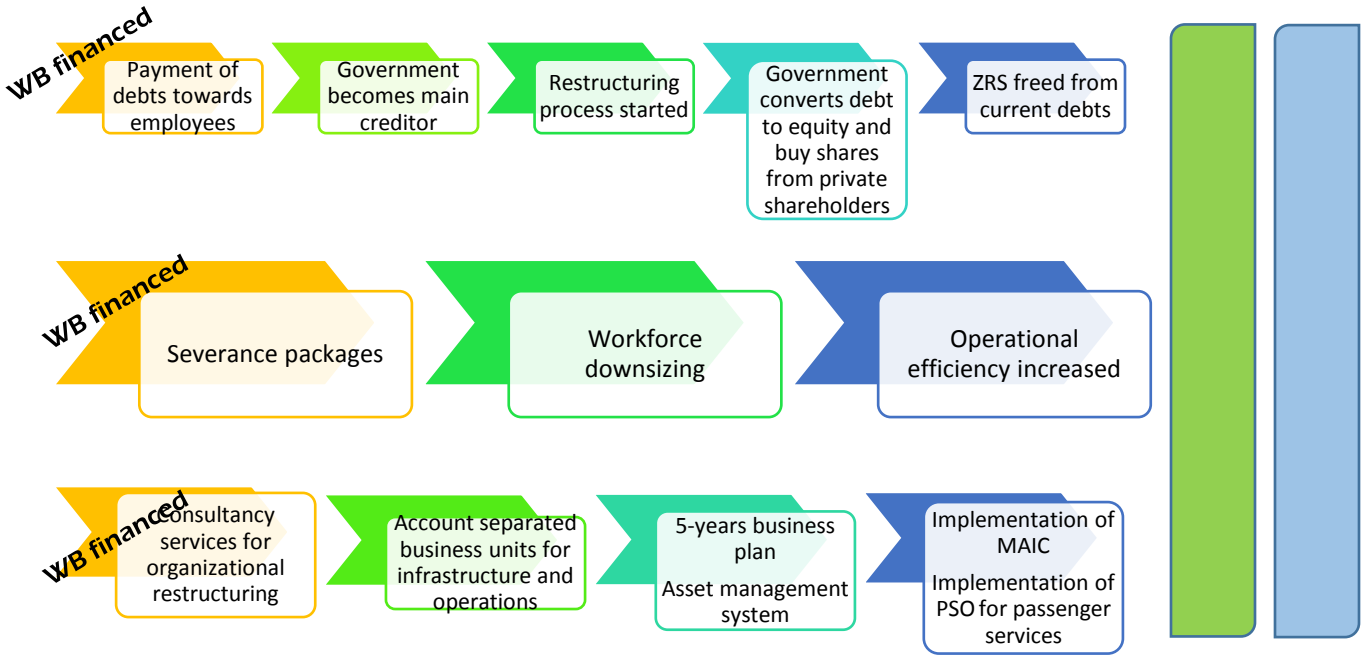
(i) DLI 1: Implementation of financial and organizational restructuring: this DLI will be linked to the official approval and submission of the restructuring plan by the RS Government as agreed with the Bank and the resettlement of arrears.

(ii) DLI 2: Operational efficiency improved: This DLI will track progress on the labor productivity levels and disburse when specified thresholds are reached.

(iii) DLI 3: Implementation of organizational restructuring: This DLI will track progress in the implementation of the new ZRS organization structure, the PSO, TAC, MAI and performance contracts, asset management plans, business plans and implementation of modern management and financial systems.

37. The rationale for public sector financing lies on the complexity and political difficulty of railways restructuring and reforms, for which private financing is not available. Once the reforms take place, private operators could be interested in service provision, competing either for or in the market.

Figure 1: Project Design



E. Implementation

Institutional and Implementation Arrangements

38. The Project will be implemented by ŽRS under the administrative responsibility of RS MoTC.

39. ŽRS established a Project Implementation and Management Team (PIMT). The PIMT will be based in the city of Doboj, headquarters of ŽRS. ŽRS staff have been nominated to form the core team of the PIMT. The PIMT includes a Head and a Deputy Head, a Financial Management and Procurement Specialist, a Human Resources Specialist, and a Transport Operations Specialist. Training will be provided on procurement, in particular on the new WB procurement framework.

40. A Project Steering Committee consisting of representatives of the PIMT, ŽRS, MoTC, the Ministry of Finance and the Ministry of Labor of Republika Srpska was created to provide coordination and support for the implementation of the project.

41. The PIMT will be supported by two project-financed consultancies: one for assisting with organizational restructuring, accounting and business systems; the second for assisting with business planning and establishing contractual relationships with government.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will be implemented by the Republika Srpska Railways. The project will not finance any physical investments or civil works. As such there is no relevant location or physical characteristics that could be assessed. However, the project does include social impacts associated with workforce restructuring under Component 2. The workforce restructuring program will be fair and transparent, done in consultation with workers and trade unions, and include funding for compensation packages and social/retraining programs.

G. Environmental and Social Safeguards Specialists on the Team

Esma Kreso, Environmental Safeguards Specialist
Jelena Lukic, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	Environmental Assessment OP/BP 4.01 is triggered under the project, as the umbrella safeguards policy to address the social risk associated with workforce

		restructuring. The project will not finance any physical investments or civil works that would entail a physical footprint or an associated environmental impact. Majority of activities are institutional, including debt restructuring, workforce restructuring and institutional support. Some minor adaptation works could be included under Component 3, such as information systems modernization and integration, in particular if server rooms will need to be established within the company or if specific waste streams will need to be managed (old equipment etc). This might call for small-scale reconstruction works EMP Checklist to be applied for works. The precautionary Checklist EMP has been disclosed by the Client and will be completed and filled in for all, if any, activities that may involve small-scale reconstruction, in particular reconstruction related to server rooms and IT equipment within ZRS. The team will follow closely the project and assist the Client in preparing the Checklist, when and if needed. Social assessment was prepared to analyze potential impacts associated with workforce restructuring under Component 2.The workforce restructuring program shall be fair and transparent, carried in consultation with workforce and trade unions, and include funding for compensation packages and social/retraining programs.
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	The project will not finance any physical investments or civil works, including those that would involve involuntary land acquisition.
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Environmental Assessment OP/BP 4.01 is triggered under the project, as the umbrella safeguards policy to address the social risk associated with workforce restructuring. The project will not finance any physical investments or civil works, in particular there will be no physical investments in railway infrastructure networks. Hence, no environmental impacts, including those that are of large scale and significant environmental impacts are expected to be associated with this project.

The main social risk of the project is associated with workforce restructuring of Republika Srpska Railways (ZRS), and related workforce reductions. This social risk and impacts associated with retrenchment are covered under the umbrella OP 4.01 policy. Since no civil works are envisaged to be financed under the project, therefore OP 4.12 was not triggered. The process of retrenchment will be governed by national labor law, and other national laws and regulation related to employment, pension and unemployment benefits. The retrenchment process will follow the principles of good international practice. At the moment of appraisal, there was no applicable collective agreement to the ZRS workers. National legislation provides sound protection of workers and include definition of collective dismissal (redundancy), formula for the calculation of severance pay, and provide additional protections for affected workers such as unemployment benefits, health insurance and job search and career counseling support. The labor law provides for the option to design voluntary incentive severance package. In instances of redundancies, the labor law provides provisions for the mandatory consultations with unions and the employment service.

It is estimated that the number of workforce would be reduced by approximately 1000 in the period between the year 2017 and 2020. It is estimated that approximately 300 workers would be able to leave the company by retiring. The social assessment was prepared. It lays out the profile of the workforce, principles and procedures required by the national laws to be followed during retrenchment implementation. The social assessment includes protections of certain categories of workers, and mitigation measures for workers affected by workforce restructuring. The principles and procedures included in the social assessment will serve as a foundation for the preparation of retrenchment plans during project implementation. It was agreed with the Borrower, that prior to carrying out any workforce reduction, ZRS will prepare the retrenchment plan, which would need to be approved by the Bank.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The project will not finance any physical investments or civil works, therefore no new direct or indirect impacts to the environment are expected. In the event that IT equipment or activities under Component 3 require small-scale renovations, the Client has agreed with the Bank team to prepare and disclose a precautionary Checklist EMP that would be used in the event that any small-scale construction works (renovation) is required during project implementation.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The project will not finance new physical investments and civil works. The project is comprised mostly of TA, and financing the arrears to employees payments and severance packages payments. The project may finance purchase of IT equipment.

In terms of social risk of retrenchment, the social assessment included consideration of alternatives to retrenchment.

The social assessment laid out measures which have been implemented in the past to avoid retrenchment, and limitations to implement measures such as enforcing retirement.The measures to avoid retrenchment included: a) hiring freeze - this option was adopted during the first phase of the labor force reduction; however, it proved to be less than optimal in achieving the desired reduction; b) enforcement of retirement: the Labor Law provides the criteria for mandatory retirement, which is the age of 65 and at least 15 years of accumulated insurance history. The Pension and Disability Insurance Law provides the eligibility criteria for retirement. It allows for lower thresholds of the minimum age and accumulated years of insurance history to be eligible for the full old age pension. It is observed that ŽRS employs workers who are eligible to retire, choose to stay in the company. Therefore, it is a challenge to enforce the retirement until it becomes mandatory; c) natural attrition - this could potentially reduce net operating costs by approximately 39 percent over a ten-year span or 26% since capital expenditures would not be affected. The average labor productivity would increase to approximately 202,000 traffic units/employee. However, despite the improvement, this figure would still fall short of the values currently registered in most railways in this region, which now already have lower traffic density than Republika Srpska.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Prior to the appraisal the ZRS prepared and disclosed the social assessment related to workforce restructuring in local language. The precautionary draft EMP Checklist was disclosed as well. ZRS established PIU team, which also included the HR Director who will oversee the workforce restructuring. ZRS has the experience with carrying out retrenchment in 2004. The Labor Law of the Republika Srpska and other relevant employment and social protection laws, provide for protection of workers in instances of collective dismissals. ZRS has legal, human resources and finance departments, which will be responsible for the implementation of staff reductions. There are four representative unions, who will be consulted prior to conducting any collective dismissals.

Prior to carrying out the workforce reduction, ZRS will prepare the retrenchment plan, which will include principles and procedures laid out in the social assessment. The social assessment included legally available modalities for voluntary and involuntary retrenchment, and procedures which are required to be followed, as well as good international practice such as company level grievance mechanism. As the workforce restructuring will be carried out over the period of four years, the ZRS will prepare annual retrenchment plans. The retrenchment plans will be reviewed and approved by the Bank.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Ministry of Transport and Communications, and ZRS are key implementing stakeholders of the project.

The draft social assessment was completed in English and local language, before the project appraisal. The precautionary EMP checklist and draft social assessment were disclosed at ZRS web page on July 24, 2017 in local language. The Bank disclosed the social assessment in English in InfoShop on July 24, 2017. A call for public commenting was issued. Received comments will be addressed in the finalized social assessment report, if relevant. The approach to the consultation process will be proactive aiming at involvement of broad scope of stakeholders: unions, Ministry of Labor, employment service, local municipalities. The social assessment will be considered final with the incorporated expressed public concerns and attached minutes of the meetings of the consultations.

Prior to workforce reduction, ZRS will prepare the draft retrenchment plan and carry out consultations with workers' representatives and other stakeholders such as employment service, as required by the Labor Law. The ZRS is obliged to submit to the representative unions and employment service draft retrenchment plan within eight days of its preparation. These stakeholders have 15 days to review the draft plan. Upon receiving these comments, the ZRS will

adopt the final retrenchment plan, to meet the requirement of the national labor law.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
06-Jul-2017	24-Jul-2017	

"In country" Disclosure

Bosnia and Herzegovina

24-Jul-2017

Comments

The draft social assessment and precautionary EMP Checklist were disclosed in local language on the ZRS website.

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?

No

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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