SPECIAL STUDY

The EBRD's projects in the Russian railway sector

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EBRD EVALUATION DEPARTMENT

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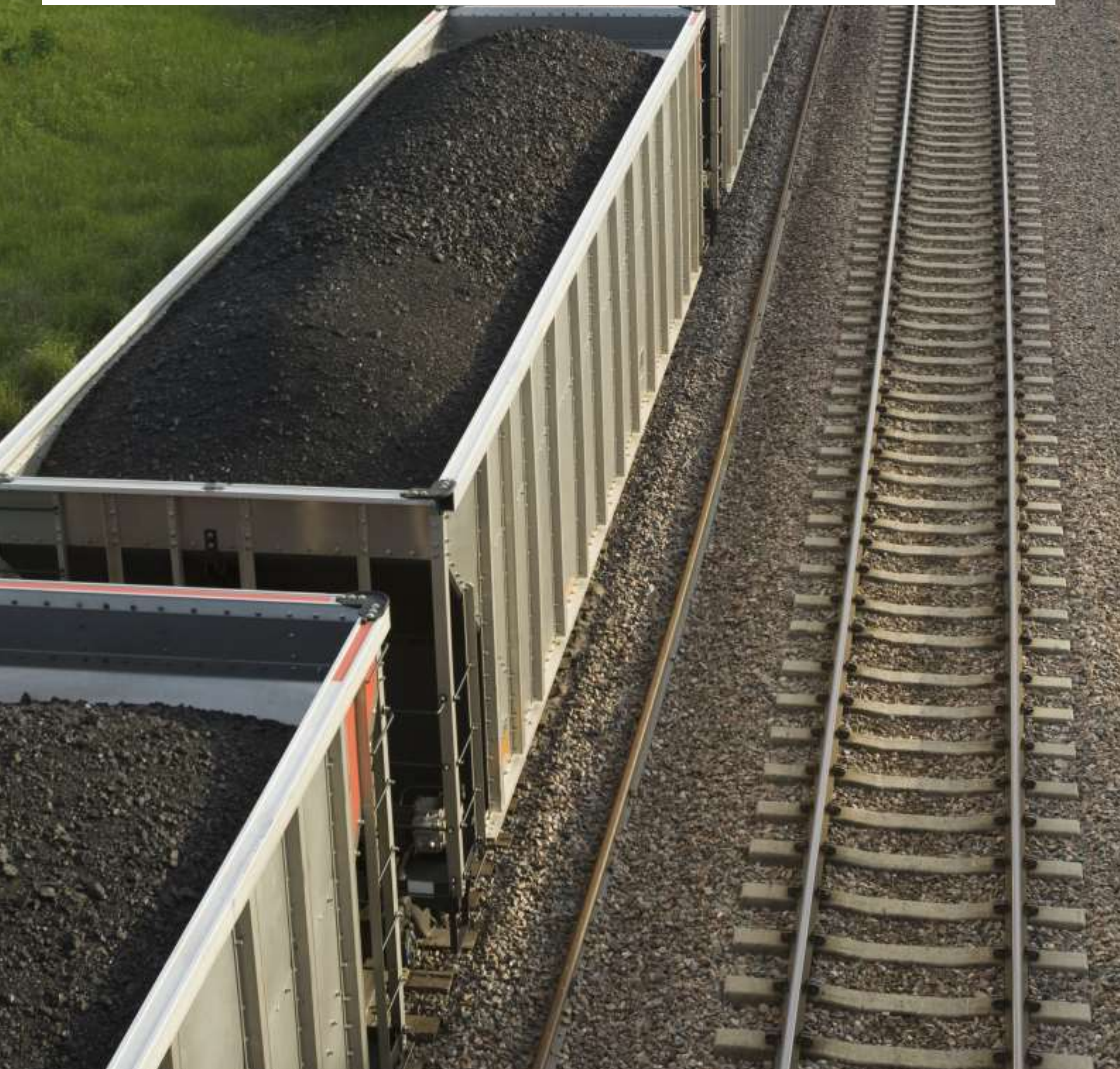
for Reconstruction and Development



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Abbreviations

CRR	Capital Resources Review
EIB	European Investment Bank
EU	European Union
FAS	Federal Antimonopoly Service
FTS	Federal Tariff Service
IFC	International Finance Corporation
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IPO	Initial Public Offering
MPS	Ministerstvo Putei Soobschenia (Ministry of Railways)
MRO	Moscow Resident Office
OPA	Operation Performance Assessment
OPAV	Operation Performance Assessment Validation
PPP	Public Private Partnership
PSO	Public Service Obligation
RAB	Regulated Asset Based
RZD	Rossiyskie Zeleznye Dorogi (Russian Railway)
SEI	Sustainable Energy Initiative
TC	Technical Cooperation
TIMS	Transition Impact Monitoring System

Defined terms

pkm	passenger kilometre
TEU	Twenty Foot Equivalent Unit (standard container unit of measurement)
tkm	tonne kilometre

Executive Summary

This report evaluates the European Bank for Reconstruction and Development's (EBRD's) operations in the Russian railway sector.

Evaluated portfolio from 1996 to 2013 in numbers:

- 24 rail projects worth €1.8 billion
- 34 TC initiatives worth €6 million

Russian railway portfolio performance assessment highlights

- The portfolio performed well across the multiple dimensions of the Bank's operational mandate. EvD rated overall performance *good* bordering on *outstanding*; based on *fully satisfactory* relevance and results and *excellent* efficiency.[1]
- The three mandates of additionality, transition impact and sound banking were rated *excellent*, *fully satisfactory* and *fully satisfactory* respectively.
- Results were delivered on the ground at both the project and sector level.
- Providing financial additionality and crowding in commercial financing were strengths of the EBRD's operations.
- Russian railway operations demonstrated the principles of sound banking, particularly Bank handling, implementation efficiency and the EBRD's investment return on the debt portfolio.
- The Bank's integrity management system worked well and succeeded in ensuring that corruption did not infect the Russian railway portfolio.
- Client companies hold Bank staff in high regard and the increased delegation of responsibilities and staff to the Moscow resident office had a positive impact on the quality of services provided to clients.
- There were a few areas where actual performance fell short of expectations such as limited support to help complete stalled reforms; use of TC; demonstrated non-financial additionality; limited support to help improve the RZD's financial performance; the EBRD's losses on its equity investments in Russian railway companies.
- However, the many areas of *fully satisfactory* to *excellent* performance far outweighed the few areas in which performance fell short of expectations.

Findings

Combined projects, TCs and policy dialogue contributed strategically to achieving transition and sector-reform objectives

The EBRD:

- led international finance institutions in the sector during the period;
- helped shape the broad sector reform programme to the early 2000s.

Specifically it assisted in:

- corporatizing and unbundling Rossiyskie Zeleznye Dorogi (Russian Railway) (RZD) by supporting two major subsidiaries, and;
- developing a competitive, market oriented freight wagon industry through significant lending to private companies.

Greater impact at sector level would have been possible through:

- more vigorous promotion of stalled reforms to open opportunities for private sector investment; and,
- more effective support of RZD's transformation into a commercially viable, financially profitable company without reliance on government subsidies.

Coherence and synergy in the use of the EBRD's instruments was limited from the early 2000s

- While there were good synergies between projects, TC and policy dialogue during the mid to late 1990s, TC was not a major feature of the EBRD's operations in the 2000s. The evaluation does recognise that it became progressively more challenging to mobilise TC for the Russian railway sector from 2005 onwards.
- In the 2000s, although there were a few successes, the EBRD's engagement in sector level policy dialogue was sporadic and generally not effective in overcoming resistance to major stalled reforms. The EBRD placed more emphasis on processing and implementing transactions than on using its other instruments (policy dialogue; TC) despite broad guidance given in corporate strategy documents and the use of one of the EBRD's first integrated approaches.

Railway reforms have resulted in macroeconomic efficiency gains

- The government's Russian railway reform programme was broadly consistent with the advice provided by the EBRD. Rail operations were separated from the policy regulatory functions, the Ministry of Transport became responsible for policy matters, the railway was regulated by independent agencies, RZD was commercialised and some of its subsidiaries were fully or partly privatised, a competitive, private sector dominated freight wagon industry developed and the railway sector diversified its sources of financing.

- After implementing the reforms, the rail sector's macroeconomic efficiency improved in terms of lower railway costs as a percentage of GDP, higher combined traffic units handled per employee and lower real costs per combined traffic unit on the railway system.
- The lesson for government owned railways in other countries is that the Russian experience demonstrates that the type of railway reforms that the EBRD advocated can result in macroeconomic benefits.

Need for a new approach for policy dialogue in the Russian railway

- In large countries like Russia, particularly those that have made a decision not to borrower sovereign loans from the Bank or to issue sovereign guarantees, future transition impact at the sector level is more likely to come as a result of policy dialogue, supported by TC and/or staff consultants, than from the provision of transaction based financing to private clients.
- During the early years of engagement the Bank contributed to helping to shape the railway reform programme and to unbundle and corporatize RZD. However, one of the few weaknesses identified by the evaluation related to the unsuccessful attempts to undertake sector level policy dialogue during the last decade to support the unfinished railway reform agenda to create more opportunities for the private sector (liberalising traction; developing a functioning pubic service obligation mechanism) or helping the Russian railway to become financially viable.
- The EBRD needs to find better ways to engage and undertake sector level policy dialogue that will help move stalled railway reforms forward. Since its resources are finite and its core strength is transaction based, the EBRD should focus policy dialogue on areas that would open up increased opportunities private sector investment in the railway sector in the context of the sector priorities set in country strategies.
- Low cost options should be sought to build stronger relations with key policy actors at the State and regional level and emerging organisations representing railway operators, such as the Council of Railway Operators.
- It will not always be possible to link sector level policy dialogue directly to private sector transactions.
- High-level policy discussions need tangible follow up to achieve the desired results in the remaining areas where reform is needed.
- Ways must be found to provide tangible value added, knowledge transfer and follow up on the issues raised in such policy discussions.

Finding a new niche in the Russian railway sector

- The EBRD's private sector financing was dominated by providing funding to acquire freight wagons. For much of the period covered by the evaluation it was possible to argue that supporting any private freight wagon company had a transition impact by increasing the proportion for freight wagons owned by the private sector. However, now the private sector owns 79 per cent of the freight wagon fleet and the remainder is owned and operated by commercial RZD subsidiaries. Also there is an oversupply of freight wagons, congestion on the network and a need for market consolidation.
- There are no additional transition impacts to be gained if the EBRD continues to finance projects that are primarily designed to increase the proportion of freight wagons operated by the private sector. The Bank must find new niches that will achieve incremental transition impacts if the EBRD's operations in the rail sector are to continue. That could involve supporting the private sector investing in traction, passenger services or railway infrastructure, supporting the further full or partial privatisation of RZD and its subsidiaries, supporting mergers and acquisitions to facilitate consolidation in the freight wagon sector, balance sheet restructuring, financing technologies that, for example, improve operational or energy efficiency or to support the privatisation of Federal Freight.
- Before many such investments become a reality, policy reforms will be needed to create the required enabling environment.

Better mitigating macroeconomic and currency depreciation risks

- Prevailing macroeconomic conditions directly impact on the financial performance of Russian railway companies and equity investments in them. During periods of rapid economic growth the demand for rail transport grows and the margins for freight wagons are healthy. During difficult economic times as in 1999, 2008/2009 and 2013 onward demand and margins fall and significant rouble depreciation adversely affected the financial performance of railway companies, particularly those with significant foreign exchange exposures. Experience has shown that unexpected macroeconomic shocks can occur and the rouble can significantly depreciate. While these factors cannot be accurately forecast, they periodically occur and adversely affect the financial performance of railway companies and equity investment profitability. Despite its robust due diligence system for equity investments, largely because of such factors the EBRD has booked consistent, substantial losses on its Russian railway equity investments.
- Given the substantial positive transition benefits associated with equity investments, the losses on the equity portfolio do not mean that the EBRD should stop investing in equity transactions. However, it does suggest that ways need to be found to better identify and manage macroeconomic and currency

risks and base investment decisions on more conservative forecasts and more rigorous stress testing. This is a challenge when attempting to value companies during times when the railway sector is performing well because experience suggests that such good macroeconomic environments do not last indefinitely.

Streamline the description, monitoring and reporting on the achievements of non-financial additionality and transition objectives and indicators

– Providing financial additionality beyond what is available from commercial sources was a strength of the EBRD, particularly for projects involving the financing of assets like railway wagons and infrastructure that have long lives. All clients stated that financial additionality was one of the main reasons that they wanted the EBRD in their transaction and the EBRD's presence in the transaction resulted in financial additionality.

– The EBRD's name, reputation and stamp of approval were major benefits when companies were privatised, issued international Initial Public Offerings (IPOs), issued international bonds or when investment fund managers were raising money. The market valued transactions that had passed the EBRD's rigorous due diligence process.

– Although there were many cases when the necessary action was taken that resulted in demonstrated non-financial additionality, there were cases when the non-financial additionality did not materialise. There was duplication and overlap in some claimed non-financial additionality and transition impact. This is inefficient because the same objectives and indicators are discussed in separate places in the Board documents and the achievement of the objectives are monitored and reported on separately. Steps should be taken to streamline the definition, monitoring and reporting on the achievement of non-financial additionality and transition objectives. In other cases the indicators to measure actual results and whether or not the results were attributable to the EBRD's presence in the transaction were not well developed (some EBRD attributes, demonstration and sectoral impacts).

If and when the EBRD re-engages in Russia after the current geopolitical tensions resulting from events in Ukraine are resolved, and assuming that the railway sector remains a priority sector for Bank engagement in Russia as articulated in the next country strategy, the findings of this evaluation lead to the following recommendations.

Recommendation 1

Find innovative ways to undertake sector level policy dialogue in areas that will remove barriers to private sector investment.

That will involve: (i) building close relationships with railway policy and regulatory agencies, State and regional organisations that champion reform, rail industry associations and RZD; (ii) advocating specific policy changes that are necessary to promote reform in the railway sector and open up more opportunities for competition and private sector investment; (iii) assessing country ownership of, and commitment to, the priorities for sector reform and the associated timing and sequencing and identifying high-level champions for necessary policy change; and (iv) developing, a strategy for the policy dialogue, embedded in the country strategy, based on deep diagnostics and political economy considerations, including the policy actors targeted, the policy actions envisaged and the tools to be used to achieve the desired results that draws on a full range of instruments in the EBRD's toolkit like: (a) mobilizing headquarters-based staff with appropriate expertise, including senior Management when needed, to support MRO in undertaking policy dialogue; (b) resourcing the efforts to provide the necessary staff and consultants that have the required world-class expertise; (c) preparing targeted knowledge products; (d) sponsoring/financing conferences on carefully selected topics; and (e) mobilising stand alone, policy oriented TCs in areas where there is strong government ownership.

Recommendation 2

The EBRD should no longer finance projects where transition impact is primarily to increase the proportion of freight wagons owned by the private sector.

The EBRD must find new niches that deliver incremental transition impacts if it continues to support the railway sector. Further policy reforms would be needed to open up some opportunities for projects involving: (i) private sector investments in traction, passenger services and railway infrastructure, preferably using PPP; (ii) balance sheet restructuring or mergers and acquisitions in the rail freight wagon industry to promote orderly market consolidation; (iv) full or partial privatisation of RZD subsidiaries; (v) a RZD IPO; and (vi) new technologies that improve operational and/or energy efficiency.

Recommendation 3

Ensure future rail projects are sufficiently robust to withstand major, unanticipated macroeconomic shocks and currency depreciations that cannot be forecast with certainty.

That will involve supplementing the comprehensive due diligence process that is in place with: (i) analysing the impact that past macroeconomic crises have had on Russian railway projects to develop the parameters for more robust stress testing during the project processing phase for unexpected macroeconomic downturns and major currency devaluations; (ii) seriously discussing with clients currency mismatch risks and the EBRD's options of providing local currency denominated financial support; (iii) more cautiously assessing the potential risks related to equity investments, including those associated with adverse macroeconomic conditions and reflect those risks in its equity valuation and pricing estimates; and (iv) searching for equity exit mechanisms that provide greater protection to the EBRD.

Recommendation 4

Improvements are needed in defining non-financial additionality and transition benchmarks and sharpening the definitions and indicators.

This can help to determine whether or not the desired results are realised and are related to the EBRD's participation in the transaction, which will involve: (i) streamlining the description, monitoring and reporting on the achievement of non-financial additionality and transition objectives and indicators; (ii) clarifying what is meant by the EBRD's attributes under non-financial additionality; (iii) determining how claimed demonstration impacts can be independently verified; and (iv) limiting claims of sectoral impact at the project level and assessing the combined impact of a portfolio of similar projects in periodic sectoral assessments or evaluations, with a focus on contribution rather than attribution.

Figure 1: Performance Assessment of the EBRD's Operations in the Russian Railway Sector

Criteria / Sub-Criteria	*Ratings*
1. Relevance	**Fully Satisfactory**
1.1 Strategic Relevance of Railway Sector Strategy	Excellent
1.2 Feasibility of EBRD's Russian Railway Operations	Fully Satisfactory
1.3 EBRD's Additionality	Excellent
2. Results	**Fully Satisfactory**
2.1 Achievement of Project-Level Outputs	Fully Satisfactory
2.2 Contribution to Intended Railway Sector and Transition Outcomes	Fully Satisfactory
2.3 Contribution to Intended Sectoral impacts	Fully Satisfactory
3. Efficiency	**Excellent**
3.1 Company Financial Performance	Fully Satisfactory
3.2 Implementation Efficiency for the Russian Railway Portfolio	Excellent
3.3 EBRD Investment Profitability	Fully Satisfactory
3.4 EBRD Handling	Excellent
Overall Project Performance Rating:	**Good**
4. Derived Ratings	
4.1 Transition Objectives	Fully Satisfactory
4.2 Sound Banking	Fully Satisfactory
4.3 Additionality (see 1.3 above)	Excellent

Source: EvD Assessment

1. Introduction

1.1 Description, objectives and scope of the evaluation

The evaluation is designed to assess the accomplishments and shortcomings of the Bank's operations in Russian railway sector and how the combination of the projects, technical cooperation (TC) grants and policy dialogue promoted transition. The evaluation addressed three major questions:

? Evaluation questions

1) What were the key features, drivers, accomplishments and shortcomings of the actual operational performance of the EBRD's portfolio of Russian railway projects in delivering on the multiple dimensions of the EBRD's mandate (such as transition impact; sound banking; additionality)? The evaluation examined strategic relevance, the results achieved and the efficiency of resource use and derived an overall assessment based the ratings of these three dimensions of evaluation.
2) How did the full range of the EBRD's operations (including projects; TCs and policy dialogue) in combination contribute at the strategic level to achieving transition and sector-reform objectives by helping to influence the design and implementation of the Russian railway reform programme to support the transition to a competitive railway sector with an increasing role for the private sector?
3) Was there coherence and synergy in the use of the EBRD's various instruments? In assessing this question the evaluation examined whether there is evidence that projects, TCs and policy dialogue were used in a coordinated way to: (i) achieve synergies to achieve transition impacts by supporting the Russian railway reform programme; (ii) support the implementation of the Russian country strategies and transport strategies; and (iii) support environmental and social sustainability?

The Special Study on EBRD projects in the Russian rail sector was included in EvD's work programme because of the size of the Russian railway portfolio and the Bank's substantial, long-standing involvement in the sector, stretching over two decades. By agreement among partners, the EBRD is the leading international financial institution (IFI) in the Russian railway sector. Between 1996 and 2013, the Board approved 24 Russian railway projects that involved nearly €2 billion in funding. Among these transactions was one of the EBRD's first integrated approaches, the 2009 Rossiyskie Zeleznye Dorogi (Russian Railway) (RZD) project. These operations were complemented by €6 million in TC.

The EBRD's self-evaluation and independent evaluation systems and transition impact monitoring system (TIMS) assess the achievement of objectives, or lack thereof, on a project-by-project basis. There is a gap in the Bank's learning because there has not been an independent evaluation of the cumulative impact of the EBRD's activities in the Russian railway sector on promoting transition at the sector level. The evaluation fills this knowledge gap and provides an independent analysis to help inform the preparation of future transport strategies, Russian country strategies and future operations in the Russian railway sector, if and when the EBRD re-engages in Russia after the existing geopolitical tensions resulting from the events in Ukraine are resolved. The findings may also be relevant for railway sector operations in other countries.

1.2 Approach and methodology

The evaluation is designed to address both the accountability and learning dimensions of evaluation. This report draws on an evaluation approach paper that set out the approach, methodology and design matrix, and the analysis in five working papers.[2]

Information sources

The evaluation is based on a review of relevant internal documents, data extracted from the Bank's information systems, information and statistics from RZD and the Federal State Statistical Agency and information found on the internet related to the Russian railway sector.[3] Key informants were interviewed in headquarters, the Moscow resident office (MRO), private railway companies, a rail industry association, selected RZD and Federal Tariff Service (FTS) officers, and Moscow-based International Finance Corporation (IFC) staff.

Limitations of study

The January/February 2015 fieldwork was undertaken in the context of Board guidance that it would not approve new projects in Russia, for the time being, due to geopolitical tensions. The evaluation team could not interview senior government officials and draw on their views when reaching its conclusions, a limitation of the evaluation. In particular, it was not possible for the evaluation to analyse the reform appetite related to the stalled reforms within RZD, the Ministry of Transport, the Federal Anti-monopoly Service, the Ministry of Finance, the Ministry of Economy and the higher echelons of government, the pressures for reform or not to do so among the concerned institutional actors and whether the Bank's involvement in these areas would have been welcomed.

Results framework and assessment

The evaluation results framework illustrates the chain from inputs to activities, outputs and outcomes to contributing the desired sector impacts (see Annex 2). A sector assessment tool was used to rate each evaluation dimension and to derive the overall rating of the EBRD's operations in the Russian railway sector.[4] Each element evaluated was rated on a 4-point scale (*excellent; fully satisfactory; partly unsatisfactory; unsatisfactory*) with high, medium or low or not included weights assigned. The overall performance rating was derived from the component ratings for relevance, results and efficiency using a 6-point scale (*outstanding; good; acceptable; below standard; poor; very poor*), applying EvD's defined cut off points.

Structure

The remainder of the report has seven major chapters: Chapter 2: Setting the context: the Russian railway sector; Chapter 3: The Russian railway portfolio; Chapter 4: Overall performance rating; Chapter 5: Assessing strategic relevance; Chapter 6: Achieving results; Chapter 7: Assessing efficiency; and Chapter 8: Key findings, lessons and recommendations.

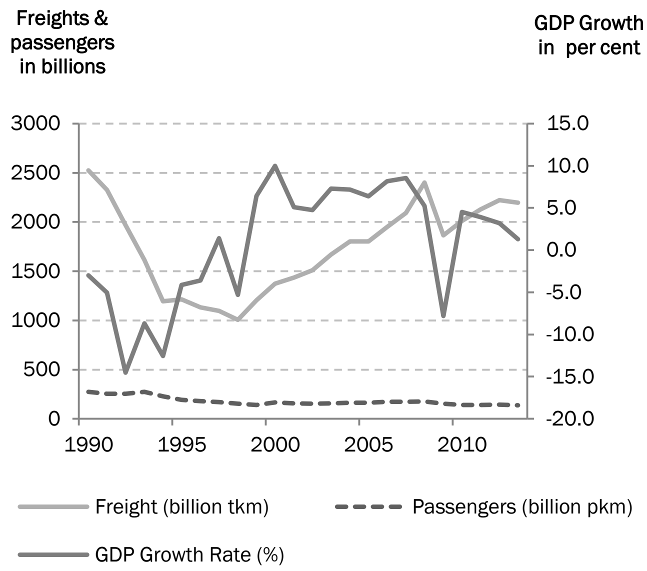
2. Setting the context: the Russian railway sector[5]

2.1 Traffic carried on the Russian railway system

The Russian railway system, one of the largest in the world, is strategically important for the Russian economy. For freight the railway is dominant with its modal share, excluding pipelines, increasing from 71 per cent in 1992 to 85 per cent in 2012. For passengers, the railway's modal share fell consistently from 37 per cent in 1992 to 27 per cent in 2012 but it remained the second most important form of passenger transport after roads. The economic and financial performance of the Russian railway sector is influenced by the domestic and international economic context and the approved tariffs. Traffic trends provide a broad indicator of the business environment in which railway companies operate and compete (see Figure 2). After being stable at 2.5 trillion tonne kilometres (tkms) from 1985 to 1990, freight traffic fell by more than half between 1991 (2.3 trillion tkms) and 1998 (1.0 trillion tkms). During this period Russia experienced an economic crisis due to the disruption of traditional trade flows between former USSR republics, the "big bang" strategy for the transition from a centrally planned to a market economy and the adverse economic impact of the 1998/1999 Russian rouble crises. Many large, state-owned enterprises, some of which were important railway customers, contracted or failed as prices and markets were liberalised and other reform measures were adopted.

After 1999 the Russian economy performed well, driven by the 1998 rouble depreciation and the growth of exports of natural resources, for which international prices increased substantially. By 2012, GDP had doubled from the 1998 level, the exchange rate stabilized, inflation declined to single digits and exports and imports had increased substantially. Freight traffic mirrored this economic performance, more than doubling from 1 trillion tkm in 1998 to 2.4 trillion tkm in 2008. Macroeconomic conditions were difficult in 2008/2009 because of the global financial crises. Freight traffic fell sharply in 2009, before recovering in 2010 and reaching 2.2 trillion tkm in 2012. Preliminary figures indicate that there was limited traffic growth in 2013 and 2014 because of the adverse macroeconomic conditions triggered by the on-going geopolitical difficulties associated with the events in Ukraine, the sharp fall in international oil prices and the devaluation of the rouble.

Figure 2: Trends in freight and passenger railway traffic and GDP growth rate



Source: Data extracted from http://databank.worldbank.org

2.2 Railway reform programme

The government created the Russian Ministry of Railways (MPS -- Ministerstvo Putei Soobschenia) in the aftermath of the breakup of the Former Soviet Union by transforming and downsizing the former MPS of the Soviet Union to manage Russian railway system. MPS, a government owned vertical monopoly, was responsible for developing and implementing railway polices, regulation, tariffs, railway operations and maintenance, infrastructure, locomotives, rolling stock and planning and allocating capital investments. During the 1990s, MPS's main priorities were to ensure that the railway continued to operate and remained solvent during those turbulent times rather than focusing on major reforms. Implementing reforms in the railway sector began in earnest in 2001. The objectives were to:

(i) introduce competition in railway transport;

(ii) facilitate private investment in rolling stock to renew the fleet;

(iii) improve sustainability, safety, access, and the quality of railway system; and

(iv) reduce the economic costs of freight and passenger transport.

The reform strategy envisioned funding from the federal, regional and local governments and the private sector to achieve these objectives and a more optimal combination of government regulation and market mechanisms that clearly defined the roles of all actors in the system, created an environment conducive to private investment and enhanced competition.

Because of the strategic importance of the railway sector, the government adopted a cautious approach to reform to manage risks and avoid major economic shocks caused by the reforms. The reform programme set out a clear direction but was implemented flexibly. Changes were made progressively as the market developed and responded to the reforms. The challenging reform programme has been underway for 13 years and has dramatically changed the Russian rail sector (see Annex 2 and Working Paper No. 1). Progress has been made in the transition to create a competitive market for some railway transport services in a sector that was previously dominated by a state railway monopoly. During the reform process, the Russian railway system avoided major shocks and disruptions in service.

Key reform achievements

- Separating the policy/regulatory framework from railway operations.
- Separating non-core activities from MPS/RZD – schools, hospitals, rest homes, theatres and the like, as well as several production facilities.
- Corporatizing RZD and establishing major lines of business as subsidiary joint stock companies.
- Fully or partly divesting RZD's shareholdings in some subsidiaries (wagons, production/repair and some non-operational subsidiaries) – this is an on-going process.
- Changing the freight tariff regime to create opportunities for private companies to invest in freight wagons and deregulating tariffs for freight services provided by private companies and RZD subsidiaries.
- Deregulating passenger fares for higher classes of passenger services and passenger services provided by private companies and RZD subsidiaries.
- Largely eliminating the cross subsidy of passenger services by freight services and providing modest direct subsidies from the government and local/regional governments for regulated, money losing passenger services.
- Attracting more than US$50 billion of private investment in the sector.
- Renewing the fleet and other equipment and introducing new technologies.
- Improving financial transparency.
- Issuing international and rouble denominated bonds and accessing the capital markets.

Some rail freight industry associations have emerged. The largest is the Council of Railway Operators (www.railsovet.ru), created 5 years ago.[6] Its 27 members operate more than 70 per cent of all freight wagons in the Russian rail sector. The Council provides a mechanism for members to discuss policy/regulatory matters with the government.

An unfinished reform agenda

Despite the considerable progress made, reforming the Russian railway sector is an unfinished agenda. More progress is needed in

- regulatory and tariff reform,
- introducing an effective public service obligation (PSO) mechanism,
- improving RZD's financial performance,
- generating the funds necessary for investment to upgrade the network, railway technology and build new railway lines to connect regions of the large country,
- liberalising traction, creating competition in the passenger sector; and,
- creating an enabling environment for private sector investment in more areas (such as ownership and operation of locomotives and operating as full freight carriers; passenger operations; investing in public private partnerships (PPPs) for railway infrastructure; continued privatisation of RZD subsidiaries; partial privatisation of RZD).

RZD is still not commercially viable and relies on government subsidies for capital investment and the cost of operating money-losing passenger services. This is partially an artificial situation as RZD tariffs are capped by the FTS in line with the government's macroeconomic policy to control inflation. However, the prices of materials and services that RZD purchases (fuel and electric power) have increased faster than the general inflation rate. The government plans more reforms in the period up to 2030 to address the remaining issues on the railway reform agenda.

3. The Russian railway portfolio

Between 1996 and 2013, the Board approved 24 Russian railway projects that involved €1.8 billion in funding and 34 TCs for €6.1 million (see Annex 3 and Annex 4). This level of financing is a modest amount relative to RZD's annual capital investment programme, which limits the EBRD's leverage to influence the railway reform programme. Only two projects were approved in the 1990s, which is consistent with the fact that the government did not begin to implement sector reforms in earnest until 2001. A few projects were approved in the early 2000s. As the reforms took effect, financial support for the railway sector accelerated beginning in 2007.

The EBRD has been involved in some landmark transactions:

- Gobaltrans' initial public offering;
- TransContainer's initial public offering;
- support for Freight One, which was eventually fully privatised;
- RZD's 2010 and 2011 international bond issues;
- Brunswick Rail's 2012 eurobond issue.

The financial support was about equally divided between RZD and its subsidiaries and private railway companies. The support to RZD included a 2009 operation approved as one of the Bank's first integrated approaches. Support for private companies was largely for the acquisition of freight wagons, which reflects the pace of railway sector reforms.

4. Overall performance rating

The evidence shows that the EBRD's Russian railway portfolio has performed well, despite the macroeconomic challenges experienced in 1999, 2008 to 2009 and in 2013 to 2014.

The evaluation rated the overall performance of the railway portfolio *good* borderline *outstanding*. This was based on the following sub-criteria:

– Relevance and Achieving Results - *fully satisfactory* bordering on *excellent*

– Efficiency - an *excellent* bordering on *fully satisfactory*.

The evaluation rated the three Bank mandate areas as follows:

i) Transition Impact - *fully satisfactory* bordering on *excellent*;

ii) Additionality - *excellent*;

iii) Sound Banking - *fully satisfactory* bordering on *excellent* for (see Figure 1 and Annex 5).

The evidence supporting this assessment, and the resulting key findings and lessons, is summarised in the following chapters.

This positive assessment of the operations in the Russian railway sector is consistent with the assessment of completed projects. Eleven of the 14 (79 per cent) completed Russian railway projects were rated *successful* by self or independent evaluations (see Annex 7). This success rate is nearly identical to that for all evaluated railway projects (81 per cent) but is higher than the success rates for all transport projects (68 per cent), transport projects in Russia (58 per cent), the Russian portfolio (54 per cent) and for all evaluated projects (61 per cent). The *good* borderline *outstanding* performance rating does not mean that everything related to the Russian railway operations was perfect. As is described in the following chapters, there were some areas where performance fell short of expectations. However, overall the good results achieved far outweighed the less than satisfactory performance in a few areas or for a small number of projects.

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5. Assessing relevance

Strategic relevance was assessed by examining alignment with, and support for delivering corporate goals set out in the transport strategies, the Russian country strategies and the capital requirements reviews (CRRs), the feasibility of the railway sector operations in the context of the government's sector strategy and the EBRD's additionality. Because these strategy documents are rather broad the evaluation selected key themes in each document that were relevant to the Russian railway sector and analysed the degree to which operations were aligned with, and helped to achieve, them.

Relevance was rated *fully satisfactory* bordering on *excellent* based on:

i) an *excellent* bordering on fully satisfactory rating for alignment with, and support for delivering the transport strategies;

ii) a *fully satisfactory* bordering on excellent rating for alignment with, and support for delivering Russian country assistance strategies;

iii) a *fully satisfactory* bordering on excellent rating for alignment with, and support for delivering the CRRs;

iv) a *fully satisfactory* rating for the feasibility of the planned and actual Russian railway operations in the context of the government's railway sector strategy; and

v) an *excellent* rating for additionality (see Figure 3 and Annex 5).

The evaluation team assigned *high* weights to both the transport and country strategies because they were expected to drive the operations in the Russian railway sector and additionality because it is one of the three pillars that guide all operations. A *low* was assigned to the CRRs because they are indirectly related to sector operations. A *medium* weight was assigned to the feasibility of the railway operations in the context of the government's railway reform programme because the EBRD's operations are unlikely to succeed unless they are consistent with the developments and reforms in the sector. The resulting lessons for railway operations and support for these ratings are summarised in the following sections.

Figure 3: Assessment of the Strategic Relevance of the EBRD's Russian Railway Operations

Criteria / *Sub-Criteria*	*Ratings*
1. Relevance	**Fully Satisfactory**
1.1 Strategic Relevance of Railway Sector Strategy	***Excellent***
1.1.1 Alignment with / Support for Delivering EBRD's Transport Strategies	*Excellent*
1.1.1.1 Policy Dialogue to Support Railway Sector Restructuring During the Pre-Reform Era	*Excellent*
1.1.1.2 Policy Dialogue to Support Railway Sector Reform After the 2001 Sector Restructuring	*Partly Unsatisfactory*
1.1.1.2.1 Support for Sector Reforms from 2002 to 2004	*Unsatisfactory*
1.1.1.2.2 Supporting the Development of a PSO Mechanism	*Unsatisfactory*
1.1.1.2.3 Supporting for Traction Liberalisation	*Unsatisfactory*
1.1.1.2.4 Supporting the Use of Public Private Partnerships in the Rail Sector	*Fully Satisfactory*
1.1.1.2.5 Supporting Tariff Harmonisation Between Russian and Baltic Ports	*Excellent*
1.1.1.2.6 Supporting Non-Discriminatory Access to Railway Infrastructure	*Excellent*
1.1.1.2.7 Support for the Federal Services for Tariffs for Rail Tariff Reform	*No Opinion Possible*
1.1.1.3 Support for RZD Unbundling and Corporatizing / Privatising RZD Subsidiaries	*Fully Satisfactory*
1.1.1.4 Support for Private Sector Investment	*Excellent*
1.1.2 Alignment with / Support for Delivering EBRD's Russian Country Strategies	*Fully Satisfactory*
1.1.2.1 Growth and Evolution of the Russian Railway Portfolio	*Excellent*
1.1.2.2 Addressing Energy Efficiency	*Fully Satisfactory*
1.1.2.3 Addressing Corruption	*Fully Satisfactory*
1.1.2.4 Use of Technical Cooperation	*Partly Unsatisfactory*
1.1.2.5 Donor Coordination	*Not Applicable*
1.1.3 Alignment with / Support for Delivering EBRD's Capital Requirements Reviews	*Fully Satisfactory*
1.1.3.1 Mobilising Other Sources of Financing	*Fully Satisfactory*
1.1.3.2 Range of Products Used	*Excellent*
1.1.3.3 Use of Local Currency Instruments	*Fully Satisfactory*
1.2 Feasibility of EBRD's Russian Railway Operations	***Fully Satisfactory***
1.3 EBRD's Additionality	***Excellent***
1.3.1 Expected Additionality	*Excellent*
1.3.1.1 Expected Financial Additionality	*Excellent*
1.3.1.2 Expected Non-Financial Additionality	*Fully Satisfactory*
1.3.2 Demonstrated Additionality	*Fully Satisfactory*
1.3.2.1 Demonstrated Financial Additionality	*Excellent*
1.3.2.1 Demonstrated Non-Financial Additionality	*Partly Unsatisfactory*

Source: EvD Assessment

5.1 Alignment with, and support for delivering, transport strategies

The four comprehensive transport strategies cover all transport modes, including railways.[7]

Major initial strategic objective

In the 1990s state owned vertical monopolies operated the railways in most countries of operations, including Russia. In such circumstances the major strategic objective was to support railway restructuring programmes including:

i) promoting fair competition;

ii) clarifying the roles of government institutions;

iii) commercialising the state railways;

iv) promoting arm's length contracts between state railways and governments, including compensation arrangements for government imposed PSOs; and

v) encouraging private sector participation, including the separating infrastructure from carrier operations.

The EBRD would lend to state railways, subject to a government commitment to railway reform, and mobilise TC to support railway reforms.

Subsequent objective

As the sector restructuring progressed, the EBRD would balance supporting the public and private sectors. For state railways the Bank would:

i) promote financial sustainability in the aftermath of the 2009 global financial crises;

ii) support reforms to improve the market orientation;

iii) support commercialisation and privatisation of state railway subsidiaries; and

iv) increase private sector participation in infrastructure, rolling stock maintenance, stations and/or rail property development.

The EBRD would seek opportunities to:

- finance private companies, initially for freight wagon operations and leasing;
- enhance competition;
- finance intermodal and logistics services; and
- support product and financial innovation, including greater use of bonds and access to capital markets.

Four issues from framework of objectives for assessment

Based on these frameworks four issues were identified, equally weighted and used to assess the degree to which the Russian railway operations supported the goals set out in the transport strategies:

Four issues for assessment

1) Pre-reform era policy dialogue to support railway sector restructuring

2) Post 2001 sector restructuring policy dialogue to support sector reform

3) Support for RZD unbundling and corporatizing/privatising RZD subsidiaries

4) Support for the private sector investment (see the following sections and Annex 5).

1/ Pre-reform era policy dialogue to support railway sector restructuring

Consistent with its role as the leading IFI in the railway sector, the record shows that the EBRD was in frequent contact with senior government officials providing strategic advice on railway reform from 1994 until the government announced and began implementing its comprehensive railway reform plan in May 2001. In addition to engaging with the MPS minister and deputy minsters, the EBRD also shared its views with the reformers in the Yeltsin government. The EBRD's engagement with the government reformers was strategically important because at that time MPS was somewhat reluctant to restructure the sector. The government reformers were putting pressure on MPS to reform.[8] Senior London based staff with deep sector knowledge undertook the policy dialogue, which drew on international experience and made practical suggestions.

A tangible output of the EBRD's policy dialogue was the June 1995 *Statement of Modernisation Strategy and Commercialisation Principles for Russian Railways in the Transition to a Market Economy*, that set out important principles and policies that were subsequently enshrined in a series of laws and decrees.[9] Support for sector reform included preparing two papers in 1997 and 2001 that set out the EBRD's views for the Prime Minister. Consistent with the guidance in the transport policies, the January 2001 *Discussion Paper on Proposed Railway Reforms in the Russian Federation* set out five principles:

1) separating the policy and regulatory roles of government from the commercial responsibilities of railway managers;

2) implementing a PSO compensation arrangement;

3) developing new management structures based on business lines;

4) adopting business plans to improve labour and capital productivity; and

5) encouraging private sector participation but recognising that railway infrastructure would remain state owned. [10]

Based on the evaluation team's file review it is clear that the Bank contributed to shaping the plan to restructure the Russian railway sector. EvD's evaluation of the Railway Modernisation Project stated:

> "Undoubtedly the Project provided an important contribution to the preparation and adaptation of the reform in the Russian railway sector. ... the

policy-related dialogue associated with this transaction generally played a significant role in initiating and bringing forward the railway reform process, especially in the very early stage."[11]

The government's railway reform programme announced in May 2001, as described in Working Paper No.1 and as implemented during the past 13 years, was broadly consistent with the policy advice (see Annex 7). Although the EBRD contributed to the rail sector restructuring, the reforms were primarily developed by the Russian authorities and fully owned by the government.

An *excellent* rating was assigned to this dimension of the evaluation because the substantial strategic dialogue was fully aligned with, and supported the implementation of, the transport strategies.

Lesson on results frameworks

A major lesson of experience was that the framework set out in the early transport policies provided useful strategic guidance for the EBRD to provide policy support to senior government officials.

2/ Post 2001 policy dialogue to support sector reform

The Bank's positive role in supporting railway sector reform was not maintained in early 2000s. By 2004 because of the completion of the Railway Modernisation Project, the absence of additional sovereign railway lending or RZD projects and significant turnover in the EBRD and senior RZD staff, the Bank was no longer directly involved in the railway restructuring and reform process.[12] The absence of tangible support during the early stages of the implementation of the railway reform programme was not consistent with the strategic agenda set out in the transport strategies, nor the EBRD's role as the leading donor in the sector. In 2004, the government decided not to take any further sovereign loans or issue sovereign guarantees for loans from IFIs. That impacted on the Bank's engagement in railway sector and made it more difficult for the Bank to influence the reform process. The Bank had to find new ways to engage in the railway reform process, which restarted in 2007 with an equity participation in 2007 (TransContainer). That transaction helped the EBRD to re-engage in the railway sector.

Consistent with the transport strategies, the 2006, 2009 and 2012, Russian country strategies stated that the agenda for policy dialogue would help to develop an enabling environment so that the private sector could invest in additional areas in the railway sector such as passenger services, traction and rail infrastructure. The EBRD tried to re-invigorate its strategic level policy dialogue with the processing of the RZD 2009 integrated approach. A number of important sector reforms were identified in the RZD 2009 integrated approach as part of the EBRD's Reform Objectives for the Russian Railway Sector and additionality associated with the transaction, including developing a PSO mechanism and liberalising traction.[13] The available information indicates that the EBRD did not enter into vigorous policy dialogue to try to remove the blockages that were preventing the adoption of a PSO and liberalising traction and as of mid-2015 reforms in these areas remained stalled. One of the contributing reasons may have been that to address single borrower exposure issues after expected co-financing failed to materialise, the RZD 2009 loan was pre-paid and replaced by support for RZD's first eurobond issue. The bond holdings were quickly sold to comply with the EBRD's single borrower limit. There was no bond framework agreement that committed RZD to undertake the policy reforms covered under the RZD 2009 integrated approach.[14] Although there was a follow on project with RZD (RZD Energy Efficiency 2010) the associated policy dialogue and loan covenants focused on energy efficiency rather than on the policy/sector reform issues described as part of the EBRD's reform objectives for the Russian railway sector in the 2009 Board document (PSO; traction liberalisation; disposal of non-core businesses; disposal of shares in RZD subsidiaries).[15] Thus the EBRD had no legal mechanism to support the sector reform agenda defined in the RZD 2009 integrated approach. The lack of a well-defined and properly functioning PSO mechanism and progress on traction liberalisation remain barriers to creating competition and attracting private capital in these areas. Although the Bank did contribute positively through policy dialogue in other areas (such as supporting the use of PPPs; rail tariff harmonisation between Russian ports and land crossings toward the Baltic states; non-discriminatory access to the rail infrastructure and competition; developing the RZD sustainable energy strategy) those positive accomplishments did not fully offset the lack of progress in those important areas.

Performance ratings

Based on the evidence provided, policy dialogue to support sector reform after 2001 was rated *partly unsatisfactory* based on the following ratings:

1) an *unsatisfactory* rating for support for sector reforms from 2002 to 2004;
2) an *unsatisfactory* rating for supporting the development of a PSO mechanism;
3) an *unsatisfactory* rating for supporting traction liberalisation;
4) a *fully satisfactory* rating for supporting the use of PPP in the rail sector;
5) an *excellent* rating of supporting tariff harmonisation between Russian ports and land crossings toward Baltic states;
6) an *excellent* rating for supporting non-discriminatory access to railway infrastructure; and
7) *not applicable* for support to FTS for rail tariff reform.

Information supporting these ratings is given in Annex 8.[16] This poor rating is of concern because the 2009 RZD integrated approach was designed to support transition along the lines detailed in the transport strategies, CCR3 and CCR4. The 2009 RZD Board document indicated that TC would be provided to support energy efficiency reform in RZD but did not mention the possibility of providing policy oriented TCs. No policy oriented TCs were approved after RZD 2009 to support the EBRD's Russian railway reform agenda. Overall, the record indicates that after the provision of RZD 2009 as part of an integrated approach the EBRD was not as seriously engaged in promoting reform at the sector level as might have been expected. In reaching its conclusions about policy dialogue the evaluation was mindful that the government determined the timing, sequencing and shape of the reforms and of the Bank's limited leverage in such a large sector. Also sovereign or sovereign guaranteed lending, which was not possible in the Russian railway sector after about 2001, provides the Bank with greater leverage over the reform process and makes it possible to include reform covenants that require government action, which strengthens policy dialogue impact.[17] Unlike the 1990s, the Bank could not leverage IMF's railway reform conditions in the 2000s. These factors, together with the EBRD's modest financing, limited the Bank's ability to significantly influence sector reforms. Given these circumstances the evaluation sought evidence as to whether or not the EBRD engaged substantially on issues that the Bank identified as being important elements of the railway sector reform agenda in reaching its conclusions rather than basing the rating on the actual implementation of the reform.

Staying engaged

To contribute to achieving necessary sector reforms the EBRD must stay engaged with government counterparts, policy/regulatory institutions and emerging industry associations to assess the feasibility, timing and sequencing of particular reforms, identify the actors that support further reforms and those that do not and work with reformers to build broad based support in the government and rail industry for the necessary reforms.

Building capacity to conduct policy dialogue

To be successful the Bank will need to find ways to support its policy dialogue efforts either through increased allocations from its staff consulting budget, by mobilising standalone policy TCs or by using other innovative means (providing knowledge products or articles in influential policy/regulatory publications; making presentations at, or sponsoring, conferences focussed on key policy issues).

In terms of good international practice the rail sector knowledge and expertise of the government, regulators and RZD is now much greater than it was the late 1990s. Indeed, there is now world-class railway expertise in some areas in Russia that is benefiting other countries through providing advice and consulting assignments.

In this context questions must be raised as to whether it is reasonable to expect the EBRD's bankers have the necessary detailed technical sector expertise to credibly help Russian officials to design appropriate solutions to the remaining reform issues. The evaluation concluded that to seriously engage in high level policy dialogue and reform the EBRD needs to mobilise experts who have the necessary expertise that is beyond what it would be reasonable to expect bankers specialising in the transport sector to possess. If that is not done, Russian authorities will not view the EBRD as a credible source of policy advice at the sector level to help address the unfinished railway reform agenda.

Limitations to EBRD input

By not actively supporting policy dialogue on key issues that were not directly linked to the investments the EBRD lost momentum towards significantly influencing important reforms in Russian railway sector. This "leaner" approach to policy dialogue was partially caused by difficulties in mobilising TC resources and partially by the EBRD's choice to concentrate on private sector operations and to selectively engage in transaction oriented policy issues.

The EBRD's leverage in the Russian railway sector will be limited by the small amount of financing that it provides relative to the total annual investment in the railway sector and lack of sovereign lending. In this context, the EBRD should adopt a strategy of maintaining close policy dialogue with senior people in concerned government ministries and agencies, advocating for necessary reforms and when the government is ready to proceed the EBRD must be prepared to rapidly mobilise world-class experts to support the government in designing and implementing the increasingly sophisticated items remaining on the railway reform agenda.[18]

Lesson on rail sector expertise

The lesson for the Russian railway sector as well as railway sectors in other countries that are approaching the advanced transition stage is that client needs evolve and eventually reach a point where detailed sector knowledge and experience, beyond what it would be reasonable to expect bankers to possess, is needed to further reforms to open up more opportunities for the private sector. In such circumstances the EBRD needs to find way to mobilize the necessary expertise.

That being said, the evaluation recognises that the direction, pace and sequencing of railway reform will be determined by the government.

Institutional changes at the EBRD to support policy dialogue

On-going institutional changes in the EBRD are designed to increase its capacity to undertake policy dialogue and provide governance support through the expanded responsibilities and pool of skills in the Vice Presidency Policy and Partnerships. Those changes are designed to increase the synergies between investments, TCs and policy dialogue. Their effectiveness is, of course, yet to be determined.

3/ Support for RZD unbundling and corporatizing and privatising RZD subsidiaries

After the sector was restructured and RZD was created, the EBRD followed the principles subsequently set out in the 2005 and 2013 transport strategies in terms of supporting the unbundling of RZD and corporatizing/privatising its subsidiaries. Two landmark transactions that the EBRD supported helped to achieve that objective:

TransContainer (2007)

TransContainer, which consolidated RZD's container businesses that were previously handled by various divisions, began operations in 2006 as a 100 per cent RZD owned subsidiary. In 2007, the EBRD made a pre-IPO equity investment of a minority stake which strengthened TransContainer's shareholder structure and governance.[19] The November 2010 IPO on the London

Stock Exchange was RZD's first international IPO and established a track record and market benchmark. By 2013 RZD held 50 per cent + 2 shares of TransContainer down from 75 per cent after the IPO.[20]

Freight One (2008)

Freight One was established in 2007 as a 100 per cent RZD owned freight operating subsidiary, using 200,000 freight wagons transferred from RZD. The EBRD loan to Freight One was approved shortly after its creation when the company had not established a track record of successful operations and had no credit history. TC was provided to help to improve Freight One's governance structure prior to its privatization. Freight One developed a well-functioning management and corporate governance structure, adopted the Russian corporate governance code, increased the number of independent Board members and formed an audit committee. In 2011 RZD privatised Freight One by selling 75 per cent minus two shares in Freight One, through an auction, to UCL Rail. The remaining shares were sold to UCL in 2012. UCL became the largest private freight fleet operator in Russia with the acquisition of Freight One.

RZD 2009 had several loan covenants and transition targets designed to support RZD unbundling and privatisation of subsidiaries. The evaluation believes that establishing Federal Freight and the Federal Passenger Company was part of the government's railway reform plan and would have happened with or without the RZD 2009 loan covenants. No evidence was found that the EBRD substantially contributed to the establishment of these companies. RZD 2009 loan covenants required RZD to submit plans to the EBRD related to its strategy for divesting non-core businesses and disposing of shares in RZD subsidiaries. The most recent TIMS stated that no work had been done on these items and that the Bank had not received the required plans. In practice, RZD has developed a strategy defining which types of subsidiaries will be partly or fully privatised and which will remain RZD owned. RZD sold some of its non-core businesses after 2009 but the pace of privatization depends on market conditions. The evaluation did not find evidence that the EBRD provided direct, tangible contributions in these areas. One area in which the EBRD contributed was providing a 2009 TC to finance the preparation of a business plan for one of the private companies created when RZD outsourced its laundry facilities for long-distance passenger rail services.

Performance ratings

A *fully satisfactory* rating was assigned to support for RZD unbundling and corporatizing/privatising RZD subsidiaries. The *excellent* support in helping to privatise two of RZD's largest subsidiaries was offset to some extent by a lack of significant support for RZD's selling non-core assets and full or partial sale of shares of some of its subsidiaries, despite the related RZD 2009 loan covenants. The transition targets and the loan covenants associated with RZD 2009 did not have a major impact on driving RZD's unbundling and corporatization/privatization of its subsidies.

4/ Support for the private sector investment in the Russian railway sector

The transport strategies made it clear that after sectoral restructuring, the EBRD would increase its support for the emerging private rail operators. Reform of the Russian railway sector opened up opportunities for the private sector to invest in freight wagons, an area that was government dominated prior to the reforms. In Russia the EBRD has been very successful in finding ways to support private railway companies. The Bank has supported many of the major independent freight operators (such as Globaltrans; Brunswick Rail; FESCO and Far Eastern Freight). The EBRD has also supported the development of the rail leasing industry and some foreign-owned, niche companies that focussed on trade between Russia, Finland and the Baltic states (such as John Nurminen; Hansa Leasing and BalTransService).

Private clients received 59 per cent of the nearly €2 billion provided to the Russian railway sector. This high percentage is somewhat unique among the countries of operations since the public sector typically dominates the railway sector in the region. Despite the support for private companies, the importance of maintaining a balanced portfolio of private and RZD transactions was recognised because state transactions:

– can be associated with high transition impact in terms of sector reform and improved investment climate; and

– provide a channel of communications and dialogue with government that is important to achieve the EBRD's transition objectives.

Performance rating

Because of the challenges experienced in supporting the private sector in the railway sector elsewhere in the region, support for the private sector in the Russian railway portfolio was rated *excellent*. A *high* weight was assigned because supporting the private sector was consistently stated the Bank's most important strategic objective in the transport strategies and CRRs.

5.2 Alignment with, and support for delivering Russian country strategies

During the evaluation period there were 11 Russian country strategies and updates.[21] The strategic objectives evolved to reflect Russia's priorities and progress in meeting transition challenges and the evolving corporate priories set out in the CRRs (see Section 5.3). The Russian country strategies supported reforming the sector through policy dialogue and TC to support the restructuring of the vertically integrated MPS monopoly and subsequent sector reforms, unbundling RZD and corporatizing/privatising is subsidiaries and supporting the emerging private freight operators. These factors were assessed in Section 5.1 above and to avoid duplication and double counting are not addressed in this section.

Five other issues covered in the Russian country strategies provided a framework to assess the degree to which railway sector operations supported the priorities set out in the country strategies:

1) the growth and evolution of the Russian railway portfolio;
2) addressing energy efficiency;
3) addressing corruption;
4) the use of TC; and
5) donor coordination (see the following sections).

Growth and evolution of the Russian railway portfolio

All Russian country strategies stated that the EBRD would be involved in the railway sector because: (i) Russia was dependent on rail transport; (ii) sector reform was needed; and (iii) there was clear evidence that the reforms were making progress. Thus rail sector operations were broadly consistent with the country strategies. However, when read as a group the country strategies make it clear that the nature and type of rail interventions would evolve as sectoral reforms were implemented. The evolution of the portfolio was consistent with the framework laid out in the successive country strategies. Consistent with the country strategies, in the 1990s the EBRD concentrated supporting MPS because there was a government commitment to reform the railway sector. The 1996 Railway Modernisation Project and a proposed second MPS project provided a platform to engage in high-level policy dialogue that eventually contributed to sector restructuring consistent with the priorities advocated by the Bank. Consistent with the country strategies produced after 2002 the portfolio evolved as the reforms progressed. Although there was no direct lending to RZD (until 2009), support was provided for the corporatisation and pre-privatisation of two major RZD subsidiaries (TransContainer; Freight One) and there was significant support for private freight wagon operators. Towards the end of the evaluation period, consistent with the later country strategies, the railway portfolio further evolved to include transactions designed to improve energy efficiency and to provide balance sheet support in the aftermath of the 2009 global financial crises.

The 2006 country strategy stated that in the rail sector the EBRD would support continued sector reform and develop private investment opportunities in the areas of:

1) railway infrastructure development and upgrading;
2) rolling stock investment and/or leasing, such as freight wagons and traction;
3) passenger rolling stock for long-distance passenger operations;
4) high-speed rail operations (both infrastructure and rolling stock); and
5) regional railway services in the medium term.

Despite what was stated in the 2006 and successive country strategies, the evaluation did not find evidence that the EBRD engaged in the type of sustained sector level policy dialogue necessary to achieve many of those objectives. Because the reforms did not progress as anticipated, the 2006 and 2009 country strategies turned out to be overly optimistic in forecasting the range of areas in the rail sector in which the private sector could invest. Similar transition challenges were set out in the 2012 country strategy. By mid-2015 opportunities for the private sector to invest in traction, long distance and regional passenger services and railway infrastructure had not materialised because the necessary reforms had not been implemented.

Many country strategies called for an increase the volume of operations in Russia and an increase in infrastructure's share of the Russian portfolio.[22] From 2001 to 2010, cumulative commitments to the railway sector were nearly 10 times higher than the amount committed in the 1990s. Thus operations in the Russian railway sector contributed to the achievement of the Bank's geographic and sector targets. Transactions in the railway sector continued during 2011 to 2013. Operations in the railway sector helped the EBRD manage its country and single borrower limits. Operations were undertaken to convert some loans to more liquid instruments that were subsequently sold, thus helping to manage prudential limits.[23]

Performance rating

Because policy dialogue was rated in Section 5.1, to avoid double counting, the rating in this section was based only on the consistency of the composition, evolution and growth of the rail portfolio relative to the visions described in the country strategies rather than the unfulfilled vision of the EBRD supporting private sector investments in more areas in the railway sector. With that caveat, a *fully satisfactory* rating was assigned to this evaluation criterion.

Addressing energy efficiency

The EBRD is increasingly investing more effort and resources into operations that deliver environmentally sustainable and resource efficient outcomes. The 2006 Sustainable Energy Initiative (SEI) provides the overarching framework for these activities. Prior to 2006 this area received limited coverage in the Russian country strategies.[24] There was more extensive coverage in the 2006, 2009 and 2012 country strategies that stated that improving energy efficiency was a cross cutting priority that would be addressed in all sectors. The country strategies gave prominence to taking measures to support implementation of SEI and the Climate Change and Energy Efficiency Initiative.[25] The Bank would help to:

1) remove bottlenecks to energy efficiency, develop renewable energy projects and promote carbon emissions trading by providing targeted investment support and funding policy dialogue and legal/regulatory reform;
2) undertake energy audits to identify opportunities;
3) promote the use of energy services companies and best available technologies to improve energy efficiency; and
4) use consultants to assist in reviewing renewable energy projects.

The country strategies stated that Russia's 2004 decision to ratify the Kyoto Protocol would provide Russia with the means to monetise the environmental benefits of reducing greenhouse gas emissions and energy waste. In

Russia the EBRD would help to establish a domestic carbon market and provide TC for preparing sustainable energy projects as carbon emission reduction projects under joint-implementation. The Bank would also help to procure carbon credits from projects through the EBRD-EIB Multilateral Carbon Credit Fund and pursue structured green investment schemes.

The later Russian country strategies were consistent with energy efficiency priorities in the 2013 Transport Strategy.[26] Because there were energy efficiency opportunities in the railway sector, the EBRD would support:

1) modernisation to bring infrastructure and rolling stock up to international standards of safety, security and environmental compliance; and
2) the introduction of cost effective, best available technology and strategies to promote energy efficiency such as regenerative braking, power generation in stations and integrated energy management systems.

During the latter part of the evaluation period, two projects were included in the railway portfolio to support increased corporate priority on energy efficiency:

RZD Energy Efficiency Project (2010)

This project was designed to support RZD's rouble 42 billion Railway Station Modernisation Programme. The project included demand side energy efficiency measures using international best practice technologies (such as installing efficient lighting systems; introducing integrated energy management systems; improving heating and energy systems) and implementing the smart station concept (a set of technologies and systems to reduce energy use). The associated bond framework agreement was a legally binding document that set out RZD's energy efficiency obligations. After completion the project's expected cumulative impact was to reduce greenhouse emissions by more than 1.2 million tonnes of CO_2/annum. Although physical project implementation has been delayed it appears to be on track to achieve its transition objectives. The project was complemented by two TCs. The consultants prepared energy audits for 4 railway stations, established an energy efficiency benchmark methodology, drafted energy services contracts and drafted tender documents. RZD accepted the majority of the consultants' suggestions and updated its internal documents formalising implementation of these methodologies systematically across all stations.

Cotton Way (2013)

The EBRD provided financing to Cotton Way, a leading player in the Russian industrial laundry and textile management market and a supplier of services to the Russian railways. The company provides services to state, municipal and commercial sector clients including JSC Russian Railways and hotels, medical facilities and fitness clubs for the 2014 Games in Sochi.[27] The EBRD financing, according to the project summary documents, was to: foster diversification; support a locally managed enterprise that innovates; introduce modern new technologies and upgrade international standards, particularly with regard to corporate governance, transparency and resource efficiency. It was intended to support a Russian regional company becoming more productive / competitive and it increases access of an SME to structured and long-term finance. The project was one of the first under the EBRD's 2013 Sustainable Resource Initiative prioritising efficient use of energy, water and materials.[28]

Project preparation was supported by two TCs that covered: (i) an energy and resource efficiency audit in the existing laundry facility in Moscow and a review of design documentation for the new plants; and (ii) preparation of a business plan for the company.[29]

Lessons for addressing energy efficiency

The lesson from these projects, that may be relevant for other railways, is that the EBRD can play a catalytic role in helping to improve energy efficiency and resource use in the railway sector. The railway portfolio's contribution to delivering country strategies' climate and energy efficiency objectives was rated *fully satisfactory* because two projects focusing on energy efficiency were included in the programme after the EBRD made energy efficiency a cutting theme for all sectors. The medium weight reflects the fact that it was not until the 2006 Russian Country Strategy that the EBRD began to focus on improving energy efficiency as a cross cutting priority. Although it is too early to conclude whether the RZD Energy Efficiency and Cotton Way projects will achieve their efficiency targets, it is clear that the design of these two projects reflected the fact that the 2006, 2009 and 2012 country strategies made improving energy efficiency a cross sector priority. Such targets are also in line with the energy efficiency targets of the 2013 transport strategy that aims to achieve a 25 per cent target of the annual business volume in three years for energy efficiency projects. To achieve an excellent rating more progress was needed in one of two areas: (i) complementing the initiatives in the stationary area with some work on energy efficiency related to mobile assets (electrification; locomotives and other rolling stock as was suggested in the 2009 country strategy); and (ii) helping to package and sell the carbon credits related to the projects, thus supporting the strategic objective of helping to develop carbon markets.

Addressing corruption

Promoting high standards of corporate governance, integrity and transparency of ownership have been important corporate objectives since the EBRD was established. The country strategies discussed corruption and the significant risks that it posed to operations in Russia, with increasing emphasis on those issued in the 2000s. Public consultations about country strategies often found that corruption was one of the more significant concerns of general public, expert organisations and civil society organisations. Despite the various measures introduced by Russian authorities in the last decade (such as laws and numerous presidential decrees; four anti-corruption plans issued from 2008 to 2014; judicial reform; deregulation; "de-offshorisation";

commitments to reinforce the rule of law) international indexes and evaluations by international organisations confirm that corruption was a serious problem in Russia throughout the evaluation period.[30] The EBRD's standard approach to handling integrity risks applies to all projects, including those in Russia. Neither Russia nor any other country with poor scores on corruption indexes is treated in a special way.

EBRD integrity procedures

The EBRD has a multi-track approach to combating fraud and corruption that includes systematic integrity due diligence procedures and investing time and resources in undertaking integrity due diligence analysis. Every transaction is vetted to ensure that all actions required by the integrity procedures have been undertaken and that the integrity checklists did not identify red flags. Clients are vetted and there are guidelines on working with politically exposed persons. The due diligence procedures are complemented by internal and external audit and IFRS reporting obligations, integrity and corporate governance checklists, procurement safeguards and coordinated anti-corruption and anti-money laundering efforts with other multi-lateral development banks, including cross-debarment decisions.

The EBRD requires staff to report suspected misconduct, fraud and corruption. Integrity policies and procedures are designed to ensure that transactions comply with international ethical standards and practices for fair business, transparency and integrity. The Office of the Chief Compliance Officer is responsible for developing and overseeing implementation of the integrity policy and training. On average the office examines 30 to 40 per cent of the projects approved by the Board each year, often with the inputs from private investigative companies.

Integrity risks

Operating in Russia involves potentially significant integrity related reputational risks for the EBRD. Because the internet search carried out as part of the evaluation found unsubstantiated allegations of corruption in the Russian railway sector the evaluation examined whether or not the anti-corruption policies and procedures succeeded in preventing corruption from infecting the railway portfolio (see Annex 9). Avoiding the taint of corruption is important because if it infects EBRD-funded projects there would an adverse impact on the Bank's reputation in the market, among shareholders and among the wider public including civil society organisations. That risk must be avoided.

Integrity issues appear to have been well handled for the Russian railway portfolio. Although corruption was a major risk, only one private sector railway project approved in the 1990s had a significant integrity problem. Overall, the EBRD succeeded in ring fencing its railway projects to prevent them from being infected by Russia's widespread corruption problems. Ownership and corporate structures for some clients were multi-layered, often involving a number of geographical jurisdictions, which complicated integrity due diligence checks and control over compliance. There is evidence that the EBRD carefully determined beneficial owners and companies domiciled in third country jurisdictions, especially those that are classified as noncompliant by some international organisations, like Cyprus. Integrity investigations sometimes resulted in the EBRD not engaging with certain companies. Also, there was one case when the Bank exited at a loss from a company after it changed its majority shareholder due to integrity concerns involving the new owner. During interviews staff did not identify any serious cases related to fraud and/or corruption in procurement in the Russian railway sector.

Performance rating

Based on the forgoing, addressing integrity issues in the Russian railway sector was rated as *fully satisfactory*. It was assigned a high weight because of the strategic importance of safeguarding the EBRD's reputation and the fact that this issue was addressed in the country strategies and all four CRRs.

Use of technical cooperation

Article 2 of the Agreement establishing the EBRD states that advisory services and technical assistance should be used to fulfil its mandate. TC is recognised as essential part of the Bank's toolkit and package of services especially for project preparation and selectively for non-project specific services supporting the transition process and contributing to policy dialogue and institution building. The Russian country strategies said that TC would be used to complement the provision of financing. During the 1990s the country strategies stated that the EBRD would provide both policy advice and financial support to help Russia adapt to the market economy. In the 1990s the EBRD's niche in the donor community was viewed as project level policy dialogue and using TC to support project preparation and implementation. During the 2000s the country strategies placed increasing emphasis on strategic policy dialogue using a combination of high-level dialogue, project-level reform targets and technical assistance, particularly as part of the RZD 2009 integrated approach. TC was also be used to address cross cutting themes, particularly to support energy efficiency and climate change initiatives in the late 2000s.

The EBRD provided €6 million to finance 34 TCs to support its operations in the Russian railway sector (see Annex 4). The success rate for railway sector TCs (59 per cent) was about equal to the success rate for all transport sector TCs.[31] During the 1990s TC was an important element of the Russian railway sector operations:

- i) sector work was undertaken before the EBRD began formulating and processing projects, which was prudent because at the time detailed information on the Russian railway sector was not readily available;
- ii) 91 per cent of all TC used in the Russian railway sector was provided in 2000 or earlier;
- iii) 70 per cent of all TC provided was related to preparing or supporting the implementation of the 1996 Russian Railway Modernization Project;
- iv) about half of the TC funding was for project preparation, mostly to help prepare the 1996 Railway Modernization Project; and
- v) most of the TCs classified as project implementation were used to support implementation of the 1996 Russian Railway Modernization Project. [32]

During the 2000s TC was not an important element of operations in the Russian railway sector. Few TCs were approved after 2000, despite the increased emphasis placed on the use of TC in the country strategies prepared after 2006 and in CRR3 and CRR4. The most recently approved Russian railway TCs were related to projects that focused on energy efficiency. During interviews, staff said that three factors explained the limited use of TC in the 2000s:

1/ The EBRD is a transaction driven institution and does not favour providing stand-alone TCs to support policy dialogue

Staff stated that the EBRD is a lean institution, that stand alone TCs were not favoured and that the priority is to conduct policy dialogue and to try to achieve transition impacts within the framework of projects. While that view was likely true in the 1990s, the more recent Russian country strategies and CRR3 and CRR4 show that at the corporate level increasing emphasis was placed on using TC to promote transition and policy dialogue, including processing and managing stand-alone TCs. That was particularly evident when the integrated approach instrument was adopted. One of the first uses of that instrument was in the Russian railway sector but it did not trigger increased provision of TC, which is supposed to be a basic component of the integrated approach. The corporate strategic policy of directing more TC to promote transition and policy dialogue, and imperatives of using TC under an integrated approach, were not operationalized in the Russian railway sector in the 2000s, aside from TC for energy efficiency purposes. Other EvD evaluations have reported that operation teams typically place less emphasis on TC than on investments, which appears to have been the case in the railway sector.[33] Although a policy related TC was formulated when processing the proposed Second Railway Modernisation project, the EBRD declined to approve it as a stand-alone TC when the government decided not to negotiate the loan.[34]

2/ It was difficult to mobilise TC funding for the Russian railway sector.

A major challenge for mobilising TC for the railway sector was that the World Bank and bilateral donors, major sources of TC, were not involved in the sector. The evaluation acknowledges that in the 2000s it became progressively more difficult to mobilise TC from traditional donors for the Russian railway sector. Although the EBRD had identified significant TC needs in Russia, CRR3 stated that donor TC support was a major uncertainty because a number of donors were either withdrawing or downsizing of their operations in Russia. Although the Board established the Shareholder Special Fund, in practice ODA-eligibility was an important element in determining the priorities for the use of those funds, effectively placing constraints on its use in Russia.[35] Despite constraints, Russia has been a huge recipient of TCs with 1,031 TC approved since the establishment of the EBRD totalling €349 million.

In 2014 Russia chose to become a donor and established a Russian TC Fund (€40 million). The guidelines for that fund restrict its use to supporting project preparation and exclude support for policy dialogue.

3/ It was not appropriate to provide TC to profitable companies

After the railway sector was restructured, RZD had considerable cash flow and used its own funds to engage reputable international consulting companies, thus lessening the need to mobilise TC to support RZD. The evaluation team acknowledges providing TC grants to RZD, which had significant financial resources, or profitable private freight companies was generally not appropriate unless there were compelling reasons (such as supporting energy efficiency or corporate governance initiatives). Promoting transition in the railway sector requires working with the policy/regulatory agencies (FTS; Federal Antimonopoly Service (FAS); Ministry of Transport; Ministry of the Economy; Ministry of Finance; Duma Committees) that are budget dependent and have limited funds to engage international experts. Providing TCs to budget dependent policy/regulatory agencies to help address issues such as liberalising traction, developing a PSO mechanism and supporting RAB tariffs might have helped to achieve transition objectives and open up more opportunities for the private sector to invest in the rail sector.

Performance rating

Overall the use of TC was rated as *partly unsatisfactory* in the context of the evolving priorities set out in the country strategies and CRRs. Although TC complemented rail sector operations during the 1990s, it was not used significantly in the 2000s, particularly to support strategic level policy dialogue to help achieve transition objectives or to support synergies with lending and policy dialogue. In reaching this conclusion the evaluation acknowledges that there were some mitigating circumstances that made it a challenge to mobilise TC to support operations in the Russian railway sector. Thus a low weight was assigned to this evaluation criterion.

Donor coordination

All Russian country strategies stressed the importance of donor coordination to promote transition and economic reform in Russia by using a co-ordinated approach that built on each institution's strengths. The EBRD would cooperate and share information with the International Monetary Fund, the World Bank, IFC, the European Union (EU) and other multilateral, bilateral and export credit agencies.[36] The 2004, 2006 and 2009 Russian country strategies emphasised the importance of coordinating with the European Investment Bank (EIB). A Memorandum of Understanding set out the broad principles governing the cooperation between the EBRD and EIB that included operations in the transport sector.

Early country strategies summarised the sectors that other international organisations were involved in but none of the strategies indicated that donors were involved in the railway sector.

Except for IFC and the EBRD, no other international agency has been involved in the Russian railway sector.

The agreed division of labour between the EBRD and the World Bank was that the EBRD would take a lead role in the railways sector while roads and highways would be left primarily to the World Bank to finance, except for build operate and transfer toll road financing. For the entire evaluation period the EBRD was the lead development financing agency in the Russian railway sector.

The EBRD and IFC coordinate, sometimes by co-financing railway projects and other times by sharing information and experience. As per its mandate, IFC is not involved in policy dialogue at the sector level and cannot support state organisations like RZD and its subsidiaries. Those factors limited the scope and depth of the EBRD's collaboration with IFC. The scope for donor coordination in the railway sector was further limited by the fact that the World Bank, the EU and bilateral donors were not involved in the railway sector in a major way. Consistent with the country strategies, the EBRD did attempt to collaborate with EIB. EIB was expected to co-finance three railway projects. However, despite the EBRD's efforts the EIB co-financing did not materialise nor did the planned co-financing from the Japan Bank for International Cooperation for a 2009 project.

In the railway sector, the main effort of coordinating with bilateral donors was to mobilise TC funding. Funding was mobilised from the EU and 11 bilateral donors to finance 32 railway TCs (see Annex 4). Although significant EU and bilateral TC funding was mobilised for the Russian railway sector in the 1990s and early 2000s, that source of potential donor coordination became limited as the 2000s progressed.[37]

Because of the lack of other agencies, except IFC, involved in the railway sector, the country strategies' objective of intensifying donor coordination was considered *not applicable* for this evaluation.

5.3 Alignment with, and support for delivering, capital resources reviews

Capital Resource Reviews are comprehensive documents that set out corporate strategies and priorities for the medium term. Four were produced to guide the Bank's operations during the evaluation period. The institutional priorities and medium-term scenarios set out in the CRRs provide a framework to assess how, or if, Russian railway operations were aligned with, and supported the delivery of, evolving corporate goals, objectives and strategies. Not all individual transactions or sector operations can be expected to address all of the corporate goals set out in the CRRs. Many of the priorities in the CRRs that are relevant for this evaluation were also reflected in the transport strategies and the Russian country strategies. To avoid double counting those covered in the preceding sections were not examined again in this section. Three additional corporate goals in the CRRs that are relevant to this evaluation were assessed: (i) mobilising other sources of financing; (ii) increasing the array of instruments used; and (ii) increasing the use of local currency products.

Mobilising other sources of financing

The Agreement establishing the EBRD emphasises its role as a catalyst to mobilise other sources of financing. Mobilising official and commercial co-financing were themes of all of CRRs. The EBRD seeks co-financiers to increase the total resources available for achieving operational objectives and to:

(i) further access to international capital markets and other sources of funding;

(ii) facilitate foreign direct investment;

(iii) share risk; and

(iv) provide a portfolio and exposure management tool.[38]

The total financing involved in the Russian railway transactions was €5.350 billion of which the EBRD provided €1.89 million, 35 per cent of the total financing involved.[39] The projects involved:

- €2.876 million, 54 per cent of the total financing, was from external sources. Such financing was independent of the EBRD's involvement in the project.
- €276 million in co-financing, accounting for 5 per cent of the total financing. Co-financing was provided by other financiers alongside financing from the EBRD. IFC provided 60 per cent of the co-financing. Some Board documents for Russian railway projects stated that co-financing from multilateral or bilateral sources would be mobilised but the expected funding did not materialise (for example, from IFC, EIB and the Japan Bank for International Cooperation).
- €308 million in participation/syndication accounted for 6 per cent of the total financing. This type of financing involves the organised sale of the EBRD's commitments to other financial institutions or A/B loan syndications. Commercial banks provided 49 per cent of this type of financing and institutions provided 51 per cent. Because of difficult market conditions some planned syndications failed or partly failed and the closing target for an equity fund was not achieved.

Funds mobilised by the EBRD were those classified as co-financing and participation/syndication. Funding from those sources was equivalent to 31 per cent of Bank financing for the Russian railway projects. Benchmarking found that the EBRD's financing represented 35 per cent of the total project value for Russian railway projects, similar to the share for the total portfolio and the Russian portfolio. This mobilisation ratio was higher than was typical for the EBRD's transport portfolio or for Russian transport projects.

Performance rating

Based on the foregoing, mobilising other sources of financing was rated *fully satisfactory*. Had all of the planned co-financing materialised, this rating would have been higher. Because of the principles in the Agreement Establishing the EBRD and the fact that mobilising additional resources was emphasised in all CRRs, a *high* weight was assigned to this criteria.

Range of products used

The EBRD offers a range of financial products to its clients (loans to private enterprises and to state-owned or controlled enterprises with or without sovereign guarantees; bonds; equity; guarantees; underwriting; trade finance; quasi equity/bespoke instruments). Loans are the most commonly used product but there were calls in all CRRs to increase the use of the other products, particularly to increase equity, capital market instruments and innovative products. The 2013 transport strategy stated that in the railway sector the EBRD would use financing instruments appropriate for the stage of transition, such as sovereign loans for vertically integrated railways, corporate loans for profitable rail companies or their subsidiaries and promoting product and financial innovation where markets exist.

Of the 24 Russian railway transactions, 7 involved equity investments (3 were publicly traded), 3 involved international bonds and the two most recent transactions involved innovative bespoke/quasi equity instruments that were not previously available in the market. Other innovations in the railway portfolio that supported the strategies in the CRRs included:

1) processing one of the first integrated approaches (RZD 2009), although as noted above the amount of policy dialogue conducted and TC provided were low, calling into question whether the transaction really formed part of an integrated approach; and
2) supporting two companies as part of the EBRD's strategy to respond to the 2009 global financial crises.

Benchmarking data indicates that the proportion of debt financing in the Russian railway sector is slightly lower and equity financing is slightly higher than for the Russian portfolio as a whole, for Russian transport projects and for the total portfolio. The EBRD's typical transport transactions used more debt financing and less equity financing than the Russian railway sector.

Performance rating

Given the range of instruments used in the Russian railway sector and the results of the benchmarking an *excellent* rating was assigned. A *low* weight was used because the EBRD's degrees of freedom are limited in selecting the instrument to be used – the client makes the ultimate decision.

Use of local currency lending

Although CRRs 1 and 2 stated that the EBRD offered local currency financing, developing and using local currency instruments received more emphasis in CRRs 3 and 4. Enhanced use of local currency instruments was one of the ways that the EBRD would adapt its core banking activity to evolving transition challenges and business environments, specifically in Russia. Five of the 15 debt operations in the Russian railway sector used local currency instruments after MosPrime was established.[40] Including equity investments, 21 per cent of the financing in the Russian railway sector was denominated in roubles. Since 2008 RZD has issued domestic bonds with 15 to 20 year maturities to finance capital investments, including its first inflation linked Rouble bond. RZD wanted the EBRD involved in that deal. However, the EBRD's legal requirements called for linking the bond to MosPrime. RZD could issue bonds at rates that were lower than MosPrime so the EBRD's involvement was not attractive.

Dialogue is maintained with clients during implementation to determine whether the client wished to change the currency of the loan. Two railway clients used this currency management option, one to convert a rouble loan to a euro loan because of a spike in the MosPrime index and the other to convert a dollar loan to a rouble loan in the aftermath of the 2009 global financial crises.

The number of times that the rouble depreciated against international currencies during the evaluation period underlined the importance of providing local currency options for companies whose main source of revenue is in roubles.[41] Companies with a currency mismatch between their debt and revenues can experience difficulties when there is sharp currency devaluation. As one client is currently experiencing, some risk mitigation strategies are not robust enough to withstand sharp depreciation of the rouble.

Lesson on currency options for future projects

A lesson of the experience in the Russian railway sector, which re-iterates previous evaluation findings, is that periodic devaluations of the rouble underline the importance of the EBRD seriously discussing currency options during project formulation that should be supported by some sensitivity analysis to illustrate the impact of devaluation on companies that have a currency mismatch between revenues and debt. [42]

Performance rating

Given the level of use of local currency options, operationalizing this strategic objective was rated *fully satisfactory*. A *low* weight was assigned to this criterion, despite its importance, because the clients, which have experienced treasury departments, determine the currency of the transaction.

5.4 Feasibility of railway operations in the context of the government's rail sector reform programme

Sector restructuring and policy reform are challenging because the process involves different stakeholders with different interests, degrees of influence and motives to reform or to oppose reforms. Stakeholders involved in the Russian railway sector include politicians at different levels, the Duma, government leaders, ministries and regulatory agencies, RZD and its subsidiaries, private rail operators and customers, both freight owners and shippers and passengers. Understanding the interests of stakeholders that directly or indirectly influence railway sector reforms and policies is important for comprehending the direction and pace of implementation of the railway reforms. This context impacts on the results achieved by the EBRD's package of investments, TCs and policy dialogue. A good understanding of the political economy context is particularly important when the EBRD plans strategic or innovative initiatives and undertakes strategic policy dialogue with the powerful stakeholders.[43]

The long evaluation time frame covered some challenging periods for Russia and the political and economic context changed dramatically. The EBRD has a set of tools and the capacity to analyse the political and economic context in the countries of operations through External Action and Political Affairs experts, economists and governance advisers based in both headquarters and MRO. Political economic awareness is more important for public sector operations as private sector projects are more narrowly focused and do not include sector level policy conditionalities. The EBRD went through different stages and played different roles during its 25 years of operation in the Russian railway sector. Beginning as a cautious initiator in the early 1990s that invested TC in extensive knowledge gathering and analysis to understand the sector, the EBRD shifted to the role of adviser, negotiator and lender to MPS in supporting Russia's design of reforms in the railway sector in the mid to late 1990s. During the second half of 2000s the EBRD was a partner, albeit not the major one in terms of the total investment in the sector, in implementing important practical steps towards modernising one of the largest railway systems in the world by helping to commercialise and privatize two of RZD's most important subsidiaries. The EBRD's increasing orientation towards private sector operators in the 2000s mirrored the implementation of reforms that created an enabling environment for the private sector to invest in freight wagons.

In many instances the EBRD was a strategic and flexible partner that understood the political, economic and institutional context and the key challenges of its main public sector counterparts, first MPS and then RZD and it private sector clients. The extensive knowledge of the railway reform programme and the status of its implementation are reflected in the comprehensive annexes in the Board documents for each railway project as well as by the evolution of its operations. There were, however, some instances, when a lack of appreciation of some political economy issues adversely impacted on operations.

Weaknesses in project identification in the 1990s

During this period several project preparatory TCs were provided but none resulted in bankable projects. Significant staff time and TC funds were invested in preparing a proposed Second Railway Modernisation Project in the late 1990s and early 2000s. MPS wanted the project. However, because MPS was a government ministry any lending operation required a sovereign guarantee and was conditional on a commitment to reform the sector. The loan negotiations for the proposed Second Railway Modernisation Project never took place. Despite repeated requests, the Ministry of Finance and the Ministry of Economy declined to provide the sovereign guarantee because the railway reforms would soon be implemented. After the reforms the government expected that RZD would be able to borrow without a sovereign guarantee. The government's reluctance to issue sovereign guarantees was not a new issue. It was an issue for the Railway Modernisation Project (1996) and country strategies flagged the issue.

Taking action to achieve covenanted transition benchmarks in 2009 and thereafter

Over time the EBRD became relatively less important for the government and RZD as a source of both financing and expert advice. After the large-scale corporate reforms in the 2000s RZD became a strong player in its own right with access to large sources of financing and to railway expertise. In such circumstances RZD required mentors and coaches to help deal with specific issues of its own choosing rather than an instructor on which it was reliant. The government and RZD set the reform agenda and the pace of its implementation. The EBRD needed to find niches where it could respond to issues that the government was ready to address. In such circumstances the RZD 2009 integrated approach, with its extensive and far reaching policy reform agenda, was not the right instrument. The EBRD did not fully appreciate why some actors opposed some of the important reforms (such as PSO and traction liberalisation) set out in the RZD 2009 integrated approach and some of the more sweeping reforms set out in some of the country strategies. As of mid-2015, despite the statements in RZD 2009, some of these important sector reforms remained stalled. There is no evidence that the EBRD invested the necessary time and resources with like-minded government and non-government (for example, sector associations) stakeholders to build momentum for, and overcome resistance to, those reforms.

Misjudging the timing of traction liberalisation: A 2012 loan was to finance the acquisition of locomotives by a private client

That loan was premised on the assumption that private companies would be able to own and operate locomotives. Although FTS separated the traction and infrastructure components of the tariff, RZD remained opposed to traction liberalisation. Because of the lack of clarity on the implementation of traction liberalisation the client judged that the regulatory risks were too high and allowed the loan offer to lapse.

For the most part the EBRD's strategy in the Russian railway sector was feasible in the context of the government's railway reform programme, both as it was planned and as it was actually implemented. Consistent with the government's railway sector reform programme, Russian railway operations evolved from an initial information gathering stage to lending to MPS with a sovereign guarantee to offering an increasingly sophisticated array of products to RZD, RZD subsidiaries and a growing number of private rail freight operators. However, there were a few cases where rail sector activities and Russian country strategies were overly optimistic about the pace of reforms and underestimated the resistance of powerful stakeholders to some EBRD supported actions, policy reforms and operations.

Performance rating

Based on the forgoing a *fully satisfactory* rating with a *medium* weight was assigned to the feasibility of railway operations in the context of the strategic direction and pace of implementation of Russia's railway reform programme.

5.5 The EBRD's additionality

Overview of additionality

All IFIs place priority on demonstrating that they provide some value added or additionality to the operation beyond what would be provided by commercial sources of financing. Additionality is one of the three key operating principles of the mandate. Examining additionality helps to provide evidence whether the EBRD 'crowded in' or 'crowded out' market funding and/or resulted in a better project than would be the case if the EBRD were not present in the transaction. As is summarized in the following sections the evaluation assessed additionality on a project-by-project basis, examining both expected and demonstrated financial additionality and non-financial additionality separately. A low weight was assigned to expected additionality and a high weight was assigned demonstrated additionality because it is more important to actually deliver additionality than to describe it well in a Board document.

Expected additionality

The assessment of expected additionality examined whether or not the claims made at approval were plausible, including the specification of monitorable, verifiable indicators that could be used to assess whether or not the planned additionality actually occurred. The resulting rating for expected additionality was *excellent* based on an *excellent* rating for expected financial additionality and a *fully satisfactory* rating for expected non-financial additionality. This positive rating of expected additionality is broadly consistent the ratings made in project level evaluations. The broad lesson from the evaluation of expected additionality is that the EBRD generally does a good job describing expected additionality in Board documents. As experience was gained, the treatment of additionality in Board documents was progressively strengthened. The description of additionality was sometimes vague in early projects. However, beginning in 2004 the Board documents included monitorable, verifiable indicators and target dates for the expected additionality. After 2004, many Board documents also included detailed reviews of the debt and loan markets that provided market based data for the expected and demonstrated financial additionality.

Expected financial additionality

The Board documents provided strong evidence to support the claims of financial additionality. For loans the EBRD and IFC were typically the only source of the longer term maturities needed to match the life of wagons and other railway assets, thus providing evidence to confirm the expected additionality of the financing relative to what was available in the market. While most clients opted to borrow from the EBRD in international currencies, primarily in dollars, in some cases the Bank provided further expected financial additionality by lending to companies in roubles to help them manage foreign exchange risks by avoiding currency mismatches. There is evidence that many projects were designed to use the A/B loan structure to try to 'crowd in' financing from commercial banks with longer tenors and on more attractive terms than would be the case if this instrument were not available. The EBRD's name and reputation were expected to add financial value for projects involving international IPOs and debut Eurobonds. In other cases the EBRD's financial additionality was provided by using innovative financial products such as a mezzanine loan or a quasi equity, bespoke instrument. The EBRD pioneered the development of the latter product in the market. Supporting balance sheet restructuring in the aftermath of the 2008/2009 global financial crises was an important source of financial additionality for two clients. Because financial additionality is mentioned in the Articles expected financial additionality was assigned a high weight.[44] It was rated as *excellent*. Ratings were assigned to 18 of the 24 projects and weighted according to the amount of the EBRD's financing. Of the 18 projects that were rated, 15 (83 per cent) received *excellent* ratings and 3 (17 per cent) received *fully satisfactory* ratings.

Expected non-financial additionality

Examples of non-financial additionality claimed in Board documents include:

– Strengthening corporate governance (appointing an EBRD-nominated board member; adopting new policies at the EBRD's insistence; adopting the EBRD's integrity and anti-money laundering policies).

– Improving transparency (making ownership structures more transparent; clients disclosing more information).

– Strengthening auditing and accounting by adopting IFRS.

– Helping to prepare companies for IPOs or for issuing international bonds.

– Strengthening environmental management in the client companies by adopting the EBRD's environmental standards and improving corporate environmental procedures and staffing.

– Mobilising TC to support RZD and Freight One. The EBRD did not provide TC to private clients.

– Taking a lead role in developing restructuring plans in coordination with commercial lenders for two clients that were in financial distress.

– Transferring technology, skills and know how.

While many sources of non-financial additionality were clearly defined and related to monitorable indicators, that was not always the case. For example, some projects claimed additionality related to the EBRD's extensive railway sector knowledge. Board documents stated that the EBRD's long involvement in the sector provided it with detailed industry knowledge and the ability to evaluate and assess the risks related to the new business opportunities created by the sector reform. While the long experience in, and knowledge of, the Russian railway sector are certainly true, it is not clear how that was translated into specific additionality for any particular project to benefit the client. This is problematic since most clients are RZD or Russian railway companies run by executives with long experience in the sector. If the

EBRD wishes to claim this as a source of additionality, the Board documents should go beyond such general statements to clearly describe how this source of knowledge was brought to bear to provide additionality and specify indicators to assess its actual delivery.

A low weight was assigned to expected non-financial additionality to reduce double counting since there is significant overlap between the indicators used for non-financial additionality and project level transition objectives. Board documents described expected non-financial additionality in a *fully satisfactory* manner. Of the 17 projects that were rated, 4 (24 per cent) received *excellent* ratings, 10 (59 per cent) received *fully satisfactory* ratings and 3 (18 per cent) were rated *partly unsatisfactory*.

Demonstrated additionality

The evaluation of demonstrated additionality assessed the extent that the expected additionality materialised. The demonstrated additionality rating was rated *fully satisfactory*, bordering on *excellent* based on an *excellent* rating for demonstrated financial additionality and a *partly unsatisfactory* rating for demonstrated non-financial additionality (see Figure 2). This finding indicates that the EBRD's railway portfolio clearly delivered additionality, particularly financial additionality, and helped to 'crowd in' private sector financing. This is an important evaluation finding because additionality is one of the EBRD's core operating principles.

Demonstrated financial additionality

For projects involving loans the demonstrated financial additionality ratings were driven by two factors: (i) terms and tenors; and (ii) mobilising expected co-financing. Most Board documents provided strong evidence to support the claims of financial additionality associated with the loan terms in the detailed annexes reviewing the loan markets. While financial market conditions may change over time, as happened during the long period covered by the evaluation, EvD believes that the appropriate time to rate demonstrated financial additionality is at the time of Board approval. Clients stated that financial additionality was related to the loan terms (i.e., cost, tenor, grace period, currency, and timeliness) that were appropriate for financing capital investments in assets with long lives like wagons and were not generally available from the market when the project was approved. Loans provided for balance sheet restructuring to help two companies cope with the aftermath of the 2008/2009 global financial crises had high demonstrated financial additionality because commercial banks were either not lending or offering very high pricing and short tenors.

The A/B loan mechanism was valued by clients as an excellent way of sourcing financing on better terms from international banks than would be the case if the EBRD were not involved in their project. Funds were mobilised from commercial sources for some projects using the A/B loan structure. However, because difficult market conditions limited the appetite for lending among commercial banks, syndications were not always successful in mobilising the targeted amount of funding. In some cases when the syndications failed, the EBRD provided more demonstrated financial additionality by increasing its loan amount to fill the financing gap. IFC also supported some of the EBRD's railway clients either through co-financing or funding other transactions. Efforts to mobilise co-financing from official sources (EIB; the Japan Bank for International Cooperation) were not successful. While the failure of the syndications and efforts to mobilise funding from official sources can be interpreted as an inability to deliver some of the expected financial additionality, it also underlines the demonstrated financial additionality associated with the EBRD's own-account financing since there is clear evidence that such funding was not available from the market. Changing the loan terms (the currency of loans; margins) during implementation provided more financial additionality for three clients.

During interviews some clients said that the EBRD's mere presence in the transaction resulted in financial additionality and complemented their companies' efforts to build a good reputation with commercial lenders and investors. The EBRD's name and reputation were a major benefit when companies were privatised, issued international IPOs, issued international bonds or when investment fund managers were raising money. Clients reported that the EBRD's presence was a signal to other potential financiers/investors that the transaction had passed its rigorous due diligence process that was well known in the market as being more thorough than those of commercial banks as it covers ownership, corporate structure and management, corporate governance, integrity, anti-money laundering, transparency, IFRS accounting and auditing standards and environmental and technical issues as well as company financial analysis. The EBRD's presence in a transaction sent a positive signal to the market (a stamp of approval) that was valued in reducing perceived risks and providing comfort to the market (improved the investors' perceptions of the risks involved) and as a certification to the market that the company had a good credit profile.

The lesson from these findings is that providing financial additionality beyond what is available from commercial sources is a clear strength of the EBRD, particularly for projects involving the financing of assets like railway wagons and infrastructure that have long lives. The EBRD's name and A/B loan instrument helped to 'crowd in' financing from market sources. Clients stated that financial additionality was a major reason that they wanted the EBRD in their transaction.

The EBRD's demonstrated financial additionality was assessed as *excellent*. Because of the importance of demonstrated additionality and the fact that financial additionality is mentioned in the Articles demonstrated financial additionality was assigned a high weight. Ratings were assigned to 18 of the 24 projects and weighted according to the amount of the EBRD's financing. Of the 18 projects that were rated, 12 (67 per cent) received *excellent* ratings and 3 (17 per cent) received *fully satisfactory* ratings, 2 (11 per cent) received *partly unsatisfactory* ratings and 1 (6 per cent) received an *unsatisfactory* rating. For most projects the expected financial additionality materialised. However, there were some cases where the expected financial additionality did not materialise (failure or partial failure of syndications or to raise co-financing; planned IPOs not materialising). The evidence shows that providing financial additionality was a clear strength in Russian railway operations.

Demonstrated non-financial additionality

In some cases the actions related to non-financial additionality were identified and taken during processing, prior to Board approval. In other cases, conditions precedents or loan covenants covered the necessary actions to deliver the expected non-financial additionality. Although there were many cases when the necessary action was taken (financial restructuring; corporate governance reforms; skill transfer and new procedures for track maintenance and procurement), there were cases when the non-financial additionality did not materialise (expected corporate governance reforms; expected IPOs; nominations for corporate boards; sector level policy reforms committed to and/or supported by covenants).

Corruption, a lack of transparency, policy and regulatory weaknesses and weak legal systems create political/country risks for private companies. The EBRD's characteristics as an IFI can help to ameliorate actual and perceived political/country risks. Benefits related to political/country risk factors were claimed for two projects that were majority foreign owned, relatively small operators, a RZD subsidiary that was to be privatised and Russian companies planning IPOs or international bond issues. For such projects, the EBRD's presence was expected to enhance market interest in providing financing by giving potential investors an element of a political comfort required for a company operating in an industry dependent on state regulation and policy. When considering a project in Kazakhstan that did not materialise, one Russian railway client was considering seeking the EBRD's involvement to help address potential political/country risks. Since the EBRD was the lender of record for all B loan syndicates, the Bank's participation reduced the political/country risks for the participating banks.

Because of their multilateral ownership, high-level government contacts and credibility IFIs can play a role in mitigating such risks, particularly for transactions, like railway and infrastructure more generally, that require a working relationship between the client companies, the government and regulatory agencies.[45] The EBRD does not appear to have been called on to play the role of an honest broker to help resolve serious legal/regulatory issues with the government that adversely affected its railway projects. That may be because freight wagon tariffs are fully deregulated and issues of equitable access to the railway infrastructure have not been reported to have seriously adversely affected clients. The latter has the potential to change if future projects involve freight carriers and RZD continues to act to protect its near monopoly on the provision of locomotives.[46] The relative absence of claimed political/country risk additionality may also reflect the fact that Russian businessmen, who have been active in the sector for many years, own many of the EBRD's client rail companies.

Demonstrated non-financial additionality was rated *partly unsatisfactory*, based on a project-by-project analysis with the ratings weighted by the amount of EBRD financing involved in the transaction. Because of the importance of demonstrated additionality and the fact that there is duplication between non-financial additionality and transition benchmarks, demonstrated non-financial additionality was assigned a medium weight. Of the 13 projects that were rated, 3 (23 per cent) received *excellent* ratings, 4 (31 per cent) received *fully satisfactory* ratings, 3 (23 per cent) received *partly unsatisfactory* ratings and 3 (23 per cent) received *unsatisfactory* ratings.[47] Overall, the lessons associated with the evaluation findings are: (i) there was more demonstrated financial additionality associated with the Russian railway portfolio than there was demonstrated non-financial additionality; and (ii) the EBRD needs to take steps to ensure that more of the planned non-financial additionality is actually delivered as a result of the EBRD's involvement in the project.

6. Achieving results

Achieving results received a *fully satisfactory* bordering on *excellent* rating based on *fully satisfactory* bordering on *excellent* ratings of achieving project results and contributing to sector transition outcomes and a *fully satisfactory* rating of contributing to intended sector impacts (see Figure 4 and Annex 5). The evidence supporting those ratings is summarised in the following sections. It is clear that the EBRD's Russian railway operations achieved positive results on the ground and generated lessons that may be applicable to future railway operations.

Figure 4: Assessing the results achieved by the EBRD's Russian railway operations

Criteria / *Sub-Criteria*	*Ratings*
2. Results	**Fully Satisfactory**
2.1 Achievement of Project-Level Outputs	***Fully Satisfactory***
2.1.1 Achievement of Project Objectives / Outputs	*Fully Satisfactory*
2.1.2 Achievement of Project-Level Transition Objectives / Outputs	*Fully Satisfactory*
2.2 Contribution to Intended Railway Sector and Transition Outcomes	***Fully Satisfactory***
2.2.1 Contribution to Strategic Railway Sector Restructuring	*Fully Satisfactory*
2.2.2 Contribution to Developing a Competitive, Private Sector Dominated Rail Freight Market	*Excellent*
2.2.3 Contribution to Improving the Financial Performance of the RZD Group	*Partly Unsatisfactory*
2.3 Contribution to Intended Sectoral impacts	***Fully Satisfactory***

Source: EvD assessment

© istockphoto

6.1 Achievement of project results

The evaluation team used two criteria to assess achieving project level results: (i) achieving project level objectives/outputs; and (ii) achieving project level transition objectives/outcomes.

Achieving project objectives and outputs

To avoid duplication this section does not cover project objectives and outputs that are assessed in other sections of the evaluation (additionality; company financial performance; the EBRD's investment profitability; transition results at the project, sector outcomes and sector impacts).[48] The evaluation team examined the project description, business purpose and other related material in each Board document and found that the physical objectives for 9 of the 17 projects rated related to the acquisition of rolling stock and for 6 projects the objectives related to financial engineering including balance sheet restructuring to address the negative impact of the 2008 to 2009 global financial crises, access to international capital markets through IPOs or international bonds or creating an infrastructure investment fund. The objective of one project was to increase locomotive manufacturing capacity and for another it was to improve railway infrastructure.

Performance ratings

Based on project-by-project analysis the evaluation rated the achievement of project objectives/outputs *fully satisfactory* bordering on *excellent*. Of the 17 projects that were rated 11 (65 per cent) were rated *excellent*, 2 (12 per cent) *fully satisfactory*, 1 (6 per cent) *partly unsatisfactory* and 3 (18 per cent) *unsatisfactory*. The evaluation evidence shows that for most projects the EBRD and the clients excelled at setting realistic project objectives over which they had direct control, designing projects to achieve those objectives and that for the large majority of projects problems during implementation did not undermine the achievement of the physical or financial instrument objectives. This evaluation finding provides evidence that the EBRD did a good job selecting and designing the Russian railway projects that it supported and that the intended objectives set out in the Board documents had a high probability of being achieved.

Achieving project level transition objectives

The evaluation examined the transition objectives and associated description in each Board document for the portfolio of Russian railway projects and the benchmarks established by TIMS and assessed each realised transition outcome on a project-by-project basis. Project level transition objectives were grouped into 5 clusters:

1/ Introducing new standards in business processes

This accounts for 30 per cent of the project level transition objectives that were classified. Examples of this type of transition objective included adopting improved corporate strategies, introducing better operational procedures, introducing IFRS accounting standards, improved environment standards and management, better energy efficiency standards and exposure to international procurement practices. Although the EBRD, like all other IFIs, places considerable emphasis on improved environmental procedures, two major clients felt that environmental due diligence was over emphasised for projects involving the procurement of freight wagons because such projects did not have major environmental impacts. Those clients did acknowledge, however, that the capital markets, international investors and international lending consortiums viewed adherence to the EBRD's strict environmental standards positively.

2/ Improving corporate governance, accounting for 28 per cent: Examples of this type of project level transition objective included improving the transparency of ownership structures, strengthening the role and functions of corporate boards and their subcommittees, encouraging the appointment of independent directors, adopting codes of corporate governance that reflect good practice, protecting the rights of minority shareholders, improving dividend policies and disclosure of financial and other pertinent information. The CRRs stated that improving corporate governance was an important strategic objective of the Bank. The evaluation findings show that staff involved in Russian railway projects devoted time and effort to address this issue.

3/ Strengthening competition and the role of the private sector, accounting for 25 per cent. Examples of this type of transition objective include setting explicit targets for company growth or entering into a new line of businesses, increasing investment opportunities for private sector investment or broadening ownership through IPOs.[49]

4/ Promoting railway sector reform, accounting for 11 per cent. All of the corporate level railway policy transition benchmarks were directly related to RZD/MPS projects. Engaging with State owned railway companies provides a platform that can be used to build high level contacts and to engage in strategic level policy dialogue and champion important sector reforms that create new opportunities for private sector investment. This type of transition benchmark was often not fully achieved. Achieving sector reforms is challenging. One lesson of experience is that lending must be appropriately resourced and accompanied by consistent, high-level policy dialogue, supported by TC and/or staff consultants with specialised expertise to achieve sector reform transition objectives. Another lesson, consistent with what is stated in the CRRs, is that it is difficult to achieve sector level transition objectives if the EBRD is only supporting private sector clients.

5/ Facilitating technological and skills transfer. This type of transition objective was not a major focus of operations in the Russian railway sector, particularly from 2005 onward. Only 6 per cent of the classified project level transition objectives were in this group. Examples included introducing modern freight wagons (such as unitemp petroleum wagons; 25 tonne axle load wagons), better energy efficiency practices and skills, more powerful and energy efficient locomotives in one project, international procurement skills and modern track maintenance equipment, skills and procedures in one project. After 25 years of sector reform and increased exposure to international good practice, the human resources in Russian railway companies are of high quality. Therefore it was appropriate that the EBRD did not put a high priority on supporting structured ways to improve human resource skill sets.

Assessing achievement of transition objectives

Adequate information was generally available to assess the achievement of corporate level transition objectives. However, there was little evidence to verify that it was plausible to conclude that the EBRD's presence in transactions resulted in achieving the benchmarks for two categories of transition objectives:

1/ Demonstration effects

Many Board documents and TIMS reports claimed that the project would successfully demonstrate something that would be replicated by other railway companies. In some cases examples of other companies entering the same market or line of business was cited as evidence that the demonstration effect had occurred. However, no clear evidence was presented to show how the project experience influenced the decision of other companies to engage in the same business. No Board document or TIMS report set monitorable, verifiable indicators that could be used to objectively assess whether or not the project actually had a demonstration impact. Verifying that demonstration effects occurred in practice must go beyond assuming an unverified linkage between successful project experience and the decision by others to adopt an innovation or to engage in the same business. Because there was no verifiable evidence to substantiate such claims in the Russian railway sector, the evaluation concluded that *no opinion was possible* for the achievement of most demonstration transition benchmarks.

2/ Impact at the sector level

Many Board documents and TIMS reports claimed that the project would have an impact at the sector level. The most frequent example was that the project would contribute to increasing the share of privately owned freight wagons. The EBRD consistently monitored that sector objective and reported the increasing role of the private sector in this area in successive Board documents. Indeed that has been a major success of the Russian railway sector reform programme. The share of privately owned freight wagons increased from 20 per cent in 2000 to 79 per cent in 2014 (see Annex 11). However, in 2014 there were about 1.2 million freight wagons in the Russian railway system. Thus the impact of any one private sector project that involved the purchase of several hundred or a few thousand wagons on this sector level indicator would not be significant. Other factors (such as policy/regulatory reforms; government/RZD decisions; investment decisions by other actors) had a far greater impact on this successful transformation than did the relatively small number of wagons purchased utilising EBRD funding. Similar comments apply to other sector level indicators like creating a leasing industry or changes in sector market shares. The evaluation assessed most such sector transition objectives as *no opinion possible*. Rather than assessing claimed sector level transition benchmarks on a project-by-project basis, it would be more appropriate to assess them in the context of a sector/country strategy.

The difficulty of assessing sector/industry level transition objectives is not a new finding. CRR2 stated that while demonstration effects were an important link in the potential contribution to transition impact, the evidence that even very successful projects have demonstration effects on the rest of the sector or economy was weak and few demonstration impacts were documented with credible evidence. CRR2 suggested that the level of activity matters for transition impact at the sector level – in other words, a greater volume of operations leads to a higher impact although no evidence was cited to support a causal relationship. CRRs have also made the (unsurprising) observation that the EBRD is more effective in achieving transition goals where the governments' priorities and policy environment were receptive to market oriented change, something that was clearly evident in the Russian railway sector; and that sector level transition impact ratings are higher for public sector operations than for private sector projects (another unsurprising observation). Those general conclusions are also applicable to the Russian railway sector and underline the importance of engaging with RZD if the Bank is to continue to contribute to reform in the sector.

Ratings of transition objective achievement

In reaching its conclusions the evaluation sought evidence to show that the EBRD's involvement in the transaction resulted in a plausible and significant contribution to achieving the claimed transition objective rather than only evidence that the transition objectives were achieved. The achievement of project level transition objectives was rated *fully satisfactory*. Of the 16 projects for which there was sufficient evidence available 8 (50 per cent) were rated *excellent*, 3 (19 per cent) *fully satisfactory*, 1 (6 per cent) *partly unsatisfactory* and 4 (25 per cent) *unsatisfactory*. The most disappointing rating was the *unsatisfactory* rating assigned to RZD (2009), the largest loan in the Russian railway portfolio. Given that it was approved as an integrated approach, the expectation was that it would result in substantial transition impacts based on a combination of financial support, policy dialogue and TC. Those expectations did not materialise.

6.2 Contributions to sector transition outcomes

Promoting and facilitating the transition from centrally planned to market economies is the EBRD's core institutional mandate. The evaluation team used three criteria to assess the EBRD's contributions to sector transition outcomes: (i) contribution to railway restructuring; (ii) contributions to developing a competitive, private sector dominated rail freight market; and (iii) contributions to strengthening RZD's financial performance.

Contribution to railway sector restructuring

The success of the Russian railway reform programme in transforming the sector is clear from an analysis of the EBRD's seven dimensions of transition impact (see Annex 10 and Working Paper No. 1). When the reform programme began there was no effective competition, private sector participation or response to market forces in the railway sector. A monolithic, vertically integrated government department was responsible for policy and regulatory matters, operating freight and passenger services, providing and operating the railway infrastructure and a host of ancillary services and planning and financing all investment. Given that starting point the railway reforms have achieved significant progress across all seven of dimensions of transition impact:

1) greater competition in the sector;
2) expansion of competitive market interactions;
3) more private ownership;
4) institutions, laws and policies that promote market functioning and efficiency;
5) transfer and dispersion of skills; and
6) setting standards for corporate governance and business conduct.

Despite the considerable progress made, the transition of the Russian railway sector is not complete and that there remains an unfinished agenda (see Section 2.2 and Working Paper No. 1). The evaluation's positive assessment of the transition of the Russian railway sector is broadly consistent with the findings reported in the 2013 Transition Report.[50] That report rated the Russian railway sector as 4-.[51] Only one railway in the 34 countries of operations, Estonia, received a higher rating and two others (Latvia; Poland) received a similar rating. The railways also received a high rating compared to other sectors in Russia.[52] The 2013 transition rating was a significant improvement over the 2+ rating from 1998 to 2003.

The restructuring and reform of the Russian railway sector resulted in major, positive transition impacts. This reflects the success of the government's reform programme. The rating in this section reflects the EBRD's contributions, or lack thereof, to that successful sector outcome. The evidence in Section 5.1 showed that the EBRD made some substantial contributions to supporting the government's reform of the sector including:

1) undertaking effective policy dialogue that contributed to the formulation of the reform programme;
2) helping to unbundle and privatise two major RZD subsidiaries;
3) helping to develop a competitive rail freight market by providing considerable financing to some of Russia's major private rail freight companies; and
4) helping to introduce some railway companies to the international capital markets.

Despite the expectations in the Russian country strategies and transport strategies, effective sector level policy dialogue was not undertaken to help create more opportunities for competition and private sector investment in areas such as traction, long distance and regional passenger services and track infrastructure (see Annex 8). Although the lack of progress of these reforms is not solely attributable to the EBRD, the assessment is that a more determined effort could and should have been made to champion the necessary reforms.

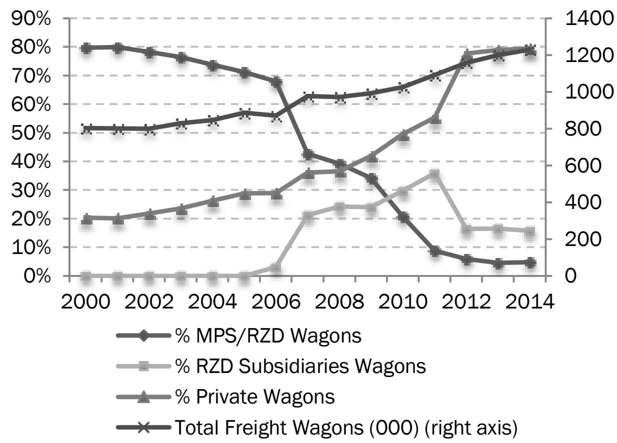
Performance rating

Given the excellent contributions in several areas, an unsatisfactory contribution in one area and the EBRD's limited leverage since its financing is a tiny fraction of the total annual investment in the Russian railway sector, the contribution to sector level transition outcomes is rated *fully satisfactory*, which was assigned a *high* weight because of the strategic importance of this criteria.

Contributions to developing a competitive, private sector dominated rail freight market

For the portfolio most of the sector transition focus was on the development of private sector dominated, competitive freight market. The expectation was that the reforms would create an environment conducive for the private sector to invest in, and operate, freight wagons. Private sector involvement would, in turn, help to increase the supply of freight wagons so that cargo owners would be able to ship their goods as per the dictates of the market, both domestic and international, and help to modernise the wagon fleet by replacing aged wagons. Before the reforms began, freight wagons were largely owned and operated by MPS, a government monopoly. As is shown in Figure 5 and Annex 11 that situation has changed dramatically.

Figure 5: Growth and ownership of the freight wagons fleet



In 2000, the year before the government announced the railway reform programme, MPS owned and operated 80 per cent of the freight wagons. Industrial companies (oil, coal, steel mills) that were major railway customers, most of which were privatised during the early stages of Russia's economic reforms, owned the remaining 20 per cent. By 2014 RZD owned 5 per cent of the wagons, RZD subsidiaries owned 16 per cent and private companies owned 79 per cent.[53] The two largest freight companies are Freight One/UCLH and Federal Freight.[54] There are about 1,800 private rail freight wagon owners/operators. Although many private freight operators are small, about 20 have fleets of over 5,000 railcars, 10 of which have fleets of between 20,000 and 60,000 wagons. There is strong competition among rail freight companies. Tariffs for freight wagons owned by private companies and RZD subsidiaries are not regulated. The associated costs to the shipper are set by market forces based on competition, quality of service and supply/demand factors. The evidence is clear – the reforms succeeded in creating a competitive rail freight market that is dominated by private companies and RZD is no longer the dominant owner of freight wagons.

Prior to the implementation of the reform programme many cargo owners experienced delays in shipping their goods according to contracted schedules. MPS could not provide the number of wagons needed on time because there was very little investment in new wagons in Russia between 1990 and 2002. There was no significant private involvement in the railway sector and MPS was dependent on the government'

s budget during this decade long economic crises and did not have the funds necessary for capital investment. Because of the reforms, the number of wagons increased from about 800,000 in 2000 to about 1.2 million in 2014 (see Figure 5). Although RZD subsidiaries made some investments to modernise their fleets, the private sector was largely responsible for adding to the stock of wagons and eliminating the constraint of wagon availability. Netting out the 209,000 wagons transferred to Freight One by RZD, private companies added about 600,000 new freight wagons, well in excess of the net increase in the number of wagons. Shippers no longer face problems in contracting the required number of wagons when they are needed.

Because of a lack of investment, many of MPS's wagons were old, obsolete and in need of replacement.[55] The reforms have contributed to modernising the freight wagon fleet. In March 2015, 43 per cent of fleet was 0-9 years of age and the average age of the fleet was 16.4 years, an improvement from the 21.1 years in 2004. Most of the freight wagons bought by the private companies were new, modern wagons. The old wagons that are still operating were mostly transferred from RZD to, or purchased from RZD by, Freight One and Federal Freight. By 2014 regulators were introducing stricter regulations to make it more expensive to maintain and operate old wagons, which should result in scrapping some of them and Russia having one of the youngest freight wagon fleets in the world.

Performance rating

The reforms and the EBRD played significant roles in contributing to the transformation of the of the freight sector. By 2014, the EBRD's private railway freight clients operated about 300,000 wagons or nearly 30 per cent of the wagons operated by private companies. Based on this, the EBRD's contribution to the development of a competitive, private sector dominated freight sector was rated *excellent*.

Recent developments

By 2014 consolidation in the freight sector was an emerging issue. Some believed that there were too many small owner operators that could not provide nation-wide services for shippers, were not financially viable and their operations contributed to congestion on the network, especially near ports. According to the existing market model for the railway sector, which is valid until 2015, and the initial railway reform papers, RZD was expected to keep about 40 per cent of the freight wagon fleet. The reforms went further and RZD today does not have a commercial railway fleet but rather controls a few subsidiaries whose total fleet accounts for about 16 per cent of the freight wagons in the system. In this context RZD is unlikely to privatise Federal Freight. Rather, RZD wants to keep Federal Freight as its subsidiary and use it to lease the fleets of many small operators. RZD has been trying to do so during the last four years without success.

Future developments

A new railway market model is being formulated to guide sector development until 2020 or 2030. It has been reported that the emerging reform model suggests that one large operator would control 40 per cent of the fleet. Reports suggest that going forward RZD believes that two large nationwide operators would provide sufficient competition, be able to operate on a countrywide basis, allow for better wagon management and would be able to attract financing to buy new wagons on better terms than smaller private freight operators. An alternative approach would be to let market forces drive consolidation with the objective of having 12-15 large, competitive private sector freight operators. The proponents of this view believe that 12 to 15 companies operating nation-wide would preserve the principles of competition and a private sector driven freight sector and result in a more manageable market, with fewer traffic jams, lower empty run ratios and, eventually, lower costs to shippers. In this scenario some private carriers would emerge that would own and operate locomotives, thus providing market based competition to RZD.

Contribution to strengthening RZD's financial performance

The railway reform programme was designed to improve the financial performance of the railway sector in general and RZD in particular by: (i) focussing on commercialisation and the principle that railway revenues should cover the full costs of providing the services and maintaining and renewing capital assets; (ii) compensating RZD for providing loss making services and removing cross subsidies in the tariff structure; (iii) diversifying RZD's sources of financing to include long term loans from international and domestic banks and raising funds from the domestic and international capital markets, which would require getting credit ratings; (iv) improving accounting and auditing by adopting international accounting standards; (vi) improving corporate governance (clear ownership structure; role and function boards; transparency; codes of corporate governance and accounting); and (vi) developing new skills (commercial and financial management; accounting and auditing; systems and procedures; privatisation; knowledge of the domestic and international capital and financial markets).

There has been mixed progress on improving RZD's financial performance during the reform period. On the positive side, compared to the situation prevailing in the 1990s, the quality of RZD's accounting and auditing improved and has followed IFRS since 2002. Financial transparency has improved and RZD's audited financial statements have been publically disclosed since 2003. RZD and its subsidiaries have diversified their sources of funding. The RZD group has received credit ratings, received many loans from commercial banks and has raised funds in the international and domestic capital markets, including both international and domestic bonds and an international IPO for TransContainer.

Since 2002 RZD's revenues have increased by 3.5 times, reaching 1,796 billion roubles in 2014. However, operating costs grew at about the same rate reaching 1,747 billion roubles. Thus there was no significant improvement in the operating ratio and RZD experienced losses in 2013 and 2014, the first time since it was created in 2003. RZD's assets grew substantially, reaching 3,805 billion roubles in 2014 (see Annex 12). Audited financial statements consistently raised liquidity concerns. The reforms have not significantly improved RZD's bottom line financial performance. RZD still depends on government subsidies for both capital construction and for money losing passenger operations. Without these subsidies RZD would have operated at a loss in 2012 with significantly lower net incomes in the previous years. Railway infrastructure needs to be upgraded to increase capacity and to allow faster, heavier trains to operate. Significant investments in this area are planned, which will require government subsidies.[56]

The tariff policy is one of the fundamental drivers of RZD's financial performance. The FTS, which reported directly to the Prime Minister, recommended rail tariffs to the government after discussions with the Ministry of Transport and the Ministry of the Economy.[57] In reaching its decisions FTS considered the macroeconomic situation and the funding needed to cover RZD's operating expenditures and to repay borrowings. Tariffs are subject to annual, and occasionally supplemental, indexation. Generally, the basic railway tariffs have increased in line with inflation, but increases in the regulated tariffs were sometimes limited because of the government's concerns about macro-economic impacts and/or social/political considerations in the case of passenger fares. In 2014 tariffs for all natural monopolies, including RZD, were not increased. This practice creates uncertainty for RZD's business planning and contributes to the need for RZD to receive government subsidies for capital investment and to cover losses on passenger operations.

Despite concerns about RZD's financial performance and the fact that RZD faces the attendant risks of operating in a country that is still in the transition to a fully developed governance system needed for a market economy, all international and domestic rating agencies gave RZD good credit ratings during the evaluation period. That reflected RZD's strategic importance to the Russian economy, the fact that RZD is the monopoly owner of rail infrastructure services and nearly all locomotives, the expectation that RZD would continue to receive government support (subsidies to partially compensate for limited tariff increases, loss-making passenger services and for a portion of RZD's capital investment), investments from the National Wealth Fund in RZD's share capital and support from the State Pension Fund in the form of long-term (15 to 30 year) low interest-rate (CPI plus 1 per cent) domestic bonds to finance infrastructure projects. Also, RZD has a favourable long-term debt maturity profile and low refinancing risk. Given these considerations RZD's ratings closely track Russia's sovereign ratings.

The rating in this section is based on an assessment of the EBRD's actions to help strengthen the RZD Group's financial performance. Doing so was not a primary focus of the engagement with RZD but the evaluation believes that there was scope for the EBRD to do more in this area. The EBRD's first loan to RZD was in 2009, 8 years after it was created. The performance targets covered by loan covenants were relatively modest, consistent with the EBRD's modest funding relative to RZD's revenues, expenditures and capital investment. In any case, the loan was pre-paid in about a year and replaced by a bond. There was no framework agreement for the bond and the holdings were soon sold. Because no financial covenants were included in RZD Energy Efficiency (2010), there was no legal mechanism to enforce the financial performance targets set in RZD (2009).

Through policy dialogue and covenants associated with Railway Modernisation (1996) the EBRD contributed to improving RZD's accounting and auditing standards by bringing them up to international standards and disclosing the audited financial statements. That was an important first step in providing accurate financial data that was necessary for commercial financial management, to gain credit ratings and to prepare for accessing capital markets. The EBRD did not vigorously address two fundamental reforms needed to create a policy framework that would lead to better RZD financial performance:

Developing Regulatory Asset Based (RAB) tariffs in the rail sector

There is always room to improve RZD's financial performance by continuing to improve efficiency and cut costs. However, further tariff reforms, such as the introduction of RAB tariffs, are needed for RZD to become financially profitable and free of the need for government subsidies. The EBRD discussed RAB tariffs and methodology with FTS for the energy sector. For the railway sector, FTS formally adopted the RAB methodology in 2013 but RAB tariffs have not been implemented. No documentation is available that shows that the EBRD was actively involved in supporting the use of RAB tariffs in the rail sector or helping to remove the blockage that is preventing their implementation.

Developing a functioning PSO mechanism

Although the EBRD consistently identified the need to develop a functioning PSO system for money losing passenger trains, such a system has not yet been developed and the evidence indicates that the EBRD did not aggressively pursue this important reform (see Section 5.1.2 and Annex 9).

RZD uses various instruments to raise funds for capital investments including syndicated loans, Rouble bonds, euro bonds and leasing.[58] RZD's borrowing strategy is designed to maintain a flexible financial position and diversified financing sources. Priority is given to attracting financing on capital markets by issuing public debt notes and extending the average maturities to match the structure of the borrowed capital with the repayment period of investment projects. RZD prefers to borrow roubles rather than international currencies to avoid foreign exchange risks. The EBRD made significant contributions to help the RZD Group to diversify its sources of financing by supporting RZD's issuance of its first dollar euro bond under RZD Confidential (2010) and first sterling GBP euro bond under RZD Energy Efficiency (2010). The EBRD also played an important role in supporting TransContainer's IPO. RZD views the EBRD as its best partner for international capital market transactions. The EBRD participation helped to give international investors confidence knowing that the euro bonds and IPO had the Bank's "stamp of approval" that was based on a thorough due diligence. Since the two EBRD supported bonds, RZD has issued euro, dollar, Swiss franc and rouble denominated bonds on the Irish and Swiss stock exchanges. The mix of currencies helps to manage foreign exchange risks. Since 2008 RZD has issued many domestic bonds, including its first inflation linked rouble bond. RZD wanted the EBRD involved in that deal. Because of legal requirements that was not possible.[59] RZD is using rouble bonds with 15 to 20 year maturity to finance capital investments.

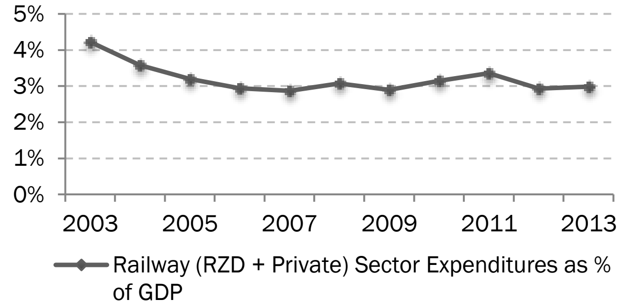
At the time of this evaluation it was unclear when, or if, the government would implement the PSO mechanism and RAB tariff system. Those are fundamental reforms that are needed to put RZD on a sound, commercial financial footing. Because of their strategic importance the evaluation believes that the EBRD should have made more of an effort to move those reforms forward. In assessing the contributions to improving the financial performance of RZD that weakness more than offsets the good performance in introducing the RZD Group to the international capital markets and helping to improve RZD's accounting and auditing, resulting in a *partly unsatisfactory* rating.

6.3 Contributions to intended sector impacts

The overall goal of the railway reform programme was to improve the economic efficiency of the railway sector. The evaluation team used three quantitative measures to assess whether or not the reforms resulted in (or contributed to) gains in economic efficiency: (i) trends in gross annual railway expenditures as a percentage of GDP; (ii) trends in labour productivity; and (iii) trends in the real cost per combined traffic units handled. The evidence indicates that the Russian railway reforms resulted in gains in economy efficiency although most of those gains were in the initial stages of the reforms.

Gross railway expenditures declined from 4.2 per cent of GDP in 2003 to 3.0 per cent in 2013, an implied 29 per cent increase in economic efficiency or a 3.5 per cent annual improvement using this measure (see Figure 6). Although the rail transport cost component of GDP has fallen, one of the goals of the reform, the evaluation concluded that this broad measure somewhat over states the contributions of railway reforms to improved economic efficiency in the sector. In addition to efficiency gains, the falling share of the railway sector in GDP also reflects the impact of the government policy of capping the annual freight and passenger tariff increases at or below the inflation rate and the fact that during most of the evaluation period commodity prices increased substantially.

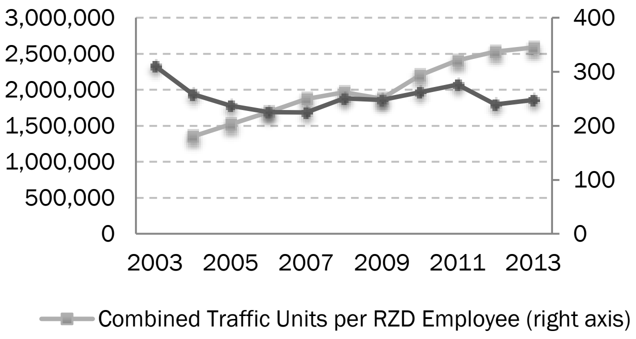
Figure 6: Russian Railway Sector Expenditures as a Per Cent of GDP



Source: RZD audited financial statements; evaluation estimates of the capital and operating expenditures of private freight companies and the government's official estimate of GDP and rail traffic indicators.

The number of RZD employees declined from 1.452 million in 2004 to 902,700 in 2013, a fall of nearly 40 per cent during a period when the combined traffic units increased by 19 per cent from 1.965 billion to 2.335 billion. Labour productivity, measured as the combined traffic units per RZD employee increased by 90 per cent from 1.354 billion in 2004 to 2.586 billion in 2013, equivalent to a 7.5 per cent annual growth in labour productivity (see Figure 7). This indicator is based on employment in RZD and its subsidiaries because consolidated employment data for private operators is not available. However, in terms of numbers of employees, the private freight operators are small relative to the RZD Group. The largest freight operator is Freight One with about 3,000 employees for about 200,000 wagons. Staffing in other large private freight companies can be in the order of 100 to 300 people. Smaller companies have a dozen or so employees. Although total railway employment data is not available, the trend in traffic units per employee is clear and shows that the railway reform programme contributed to the Russian railway system being able to handle more traffic with significantly fewer employees.

Figure 7: Russian Railway Sector Productivity Indicators



Source: RZD audited financial statements; the evaluation's estimates of the capital and operating expenditures of private freight companies; and the government's official estimate of GDP and rail traffic indicators.

In providing advice to help formulate the Russian railway sector reform programme, the EBRD identified a need to adopt challenging business plans to achieve higher labour and capital productivity. The target was to increase average productivity (costs/traffic unit carried) by 3 to 5 per cent per year. RZD's total productivity improved from 311 roubles per thousand combined traffic tonne kms in 2003 to 248 roubles in 2013, equivalent to an annual 2.3 per cent growth in sector productivity in real terms (see Figure 7), slightly below the lower end of expectations. Using that indicator, the Russian railway reforms largely delivered the desired increase in productivity. A sharp fall in the amount of passenger kms, without a corresponding cut in services explains part of the slower than expected growth in productivity. Macroeconomic factors also contributed to the slower than desired growth in productivity. Productivity improved from 2003 to 2007 but deteriorated from 2008 to 2011 during and in the aftermath of the global financial crises. Productivity improved in 2012 with the strong growth in freight traffic but fell in 2013 as the demand for railway services softened. This pattern shows that when railway traffic contracts sharply, cost cutting efforts are not sufficient to protect the long-term gains in productivity.

Despite the positive trends in employee productivity and the proportion of GDP accounted for by the railway sector, there are some indications that the economic efficiency of the railway network has declined in recent years:

1) the cycle time for railway freight wagons more than doubled between 2007 and 2013 reaching 16.9 days:

2) average train speeds declined from 40.3 kph in 2007 to 36.8 kph in 2013;

3) the average delivery speed for freight fell by 68 km/day to 222 km/day between 2009 and 2013;

4) the share of freight delivered on time as per the contracts declined from 90.5 per cent in 2007 to 77.5 per cent in 2013; and

5) increased empty runs -- the empty tare as a per cent of total freight tonne kms more than doubled to 22 per cent in the seven years ending in 2013 (see Annex 11). Taken together this data indicates that there is increasing congestion on the railway network that is undermining its efficiency.

Rail sector experts interviewed felt that market consolidation was needed in the rail freight sector as there are too many wagon owners, about 1,800. The 12 largest companies dominate rail freight transportation but there are many very small companies that own from 1 to a few dozen or a few hundred wagons. The fleets of small operators and owners sometimes create traffic issues, especially when waiting for cargo near major loading areas such as ports. The demurrage changes introduced on 1 April 2015 should help reduce congestion on the network caused by empty wagons waiting for cargo.

Relative to demand, there is an oversupply of wagons, which reflects the significant investment in additional freight wagons and less than optimal scrapping of obsolete wagons. As of March 2015 some 300,000 wagons had expired service lives. Some of them were idling due to the ban on life extensions but some were operating because they received their extensions prior to the ban. The more stringent and costly regulatory policy governing the extension of wagon lives introduced in 2014 may lead to accelerated scrapping of old wagons. These recent policy/regulatory changes should help to improve economic efficiency by reducing congestion on the rail network. However, they need to be complemented by RZD efforts to improve its operations and traffic management through means such as increasing the number of block trains, optimizing schedules, better track maintenance to reduce infrastructure limitations and other administrative, marketing and technical measures allow for greater efficiency in the rail system.

Given the EBRD's limited financing relative to the total annual investment in the Russian railway system, contributions to achieving the desired sector impact of improving economic efficiency were correspondingly modest. Although the improved economic efficiency cannot be solely attributed to the EBRD, some of it can.

The evidence suggests that there was a positive contribution by the Bank from:

- providing advice on sector restructuring and reform; and
- substantially contributing to the development of the competitive rail freight market.

Board documents do not indicate that the EBRD was aware of, or took measures to help address through policy dialogue, the growing congestion on the network or the growing surplus of wagons.

Performance rating

A *fully satisfactory* rating was assigned to this dimension of evaluation because, in the opinion of the evaluation, the positive contributions outweigh the possible additional potential gains if the EBRD had helped to address the outstanding issues.

7. Assessing efficiency

The assessment of the efficiency of the EBRD's Russian railway operations examined four criteria: (i) company financial performance; (ii) implementation efficiency; (iii) the EBRD's investment performance; and (iv) Bank handling. The resulting lessons and evidence to support the ratings in Figure 8 and Annex 5 is summarised in the following sections.

Figure 8: Assessing the Efficiency of the EBRD's Operations in the Russian Railway Sector

Criteria / Sub-Criteria	*Ratings*
3. Efficiency	Excellent
3.1 Company Financial Performance	***Fully Satisfactory***
3.2 Implementation Efficiency for the Russian Railway Portfolio	***Excellent***
3.3 EBRD Investment Profitability	***Fully Satisfactory***
3.3.1 Debt Portfolio	*Excellent*
3.3.2 Equity Portfolio	*Unsatisfactory*
3.4 EBRD Handling	***Excellent***
3.4.1 During Processing and Implementation	*Fully Satisfactory*
3.4.2 Handling Environmental and Social Issues	*Fully Satisfactory*
3.4.3 Handling Problem Projects	*Excellent*

Source: EvD Assessment

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7.1 Company financial performance

As previously noted, during the 25 year time period covered by the Russian railway evaluation there were three major economic crises. The financial performance of railway companies is directly related to the prevailing economic conditions. During periods of rapid economic growth, the volume of railway freight traffic increases, freight wagon margins are healthy, the utilisation of assets is high and railway companies perform well financially. During difficult macroeconomic conditions, traffic and margins fall and the financial performance of railway companies deteriorates. Those adverse impacts were amplified for highly leveraged companies and/or by steep devaluations of the rouble for those companies with significant foreign exchange exposures. Well-managed, operationally efficient companies that do not have excessive debt and have a preponderance of rouble-denominated debt, the currency of their revenues, survive the difficult times and prosper when the economy recovers. Other companies do not have sufficient reserves to weather the difficult times, learn that their foreign exchange hedging mechanisms to manage currency mismatches are not sufficiently robust during times of steep depreciation of the rouble and experience poor financial performance. Such companies may or may not survive the negative impact of the challenging markets on their bottom line during the periods of macroeconomic uncertainty. This general lesson, that the financial performance of railway companies is strongly influenced by macroeconomic conditions likely applies to railway in all of the EBRD's countries of operations, particularly railways that are dominated by freight traffic.

The latest financial statements available to the evaluation were for 2013/2014. The company financial performance ratings were based on financial performance during the evaluation period rather than on the depressed financial outcomes that all rail companies experienced in 2013/2014 because the companies that are financially strong are expected to weather the current difficult market. For companies from which the EBRD has exited and no longer has an operational relationship, the rating was based on the company's financial performance at the time of exit.

Performance rating

The evaluation team undertook a project-by-project analysis of company financial performance. Sufficient information was available to rate the financial performance for 20 of the 24 projects. Company financial performance was rated *excellent* for 5 (25 per cent), *fully satisfactory* for 7 (35 per cent), *partly unsatisfactory* for 4 (20 per cent) and *unsatisfactory* for 4 (20 per cent) (see Working Paper No. 3). Weighting the individual company performance ratings by the amount of financing involved in the transaction and applying EvD's standard cut off points resulted in a *fully satisfactory* bordering on *partly unsatisfactory* rating of company financial performance for the railway portfolio.

7.2 Efficiency of implementing the Russian railway portfolio

As of the end of 2014, disbursements for Russian railway projects totalled €1.482 billion. After netting out cancelled projects and the most recent projects that were not covered by the analysis, disbursements represented 84 per cent of the net effective financing. This high disbursement ratio shows that most of the Russian railway projects have been completed or are well advanced, the exceptions mostly being projects approved in 2012 or 2013. Portfolio data was analysed to compare the time required to implement Russian railway projects benchmarked against all projects in the EBRD's railway portfolio, the portfolio of Russian transport projects and the transport portfolio. The average number of days between three key milestones were used as broad proxies for implementation efficiency: (i) the first and final disbursement; (ii) signing and final disbursement; and (iii) Board approval and signing.

The time elapsed between the first and final disbursement broadly indicated that Russian railway projects were efficiently implemented. Russian railway projects required an average of 391 days between the first and final disbursements, 39 per cent of the 997 days required for the corporate railway portfolio.[60] Private sector railway projects were implemented more quickly than public sector projects, both in Russia and in all countries of operations.[61] Although public railway projects in Russia took longer to implement (742 days) than private projects, that was less then 60 per cent of the figure for the EBRD's portfolio of public railway projects in all countries of operations (1,296).[62]

In addition to project related management factors, two other characteristics contributed to these findings: (i) there were proportionately more private railway projects in Russia than in other countries; and (ii) two of the three public sector projects in Russia involved bonds, which were quickly disbursed. The analysis of portfolio data indicated that, overall, Russian railway projects were efficiently implemented and that there were generally no long delays between Board approval and signing or from signing to final disbursement.[63] This suggests that there are no systemic issues related to fulfilling conditions precedent, procurement (tendering and contract award), project execution or issuing the required approvals during project implementation. The exceptions to this general finding were the two public sector Russian railway projects that involved procurement. For both the 1996 Railway Modernisation Project and the 2010 RZD Energy Efficiency Project, there were long procurement delays.

For each debt transaction, the EBRD has developed proxies to estimate direct project costs and staff project costs net of the corresponding cost recoveries. Net project costs as a percentage of net operating income were considerably lower for Russian railway operations (5.9 per cent) than for debt operations in Russia (12.9 per cent) or for the EBRD (16.7 per cent) as a whole. This benchmarking shows that resources were used efficiently to process and manage the Russian railway portfolio.

OPAVs and project monitoring reports did not identify major problems in the efficiency of the implementation of Russian railway projects. The benchmarking analysis showed that the Russian railway projects were implemented more quickly than comparators and that internal resources were efficiently used.[64] Because the Russian railway portfolio consistently outperformed its comparators, implementation efficiency was rated *excellent*.

7.3 The EBRD's investment profitability

EBRD's investment profitability for its Russian railway sector operations was rated *fully satisfactory* based on: (i) an *excellent* rating for the profitability of the debt portfolio, which was assigned a high weight because debt accounted for 75 per cent of the portfolio; and (ii) an *unsatisfactory* rating for the return on the equity portfolio, which was assigned a low weight because equity accounted for 25 per cent of the portfolio. By the end of 2014, profits on its Russian railway loans, estimated at nearly €93 million more than offset the €51 million currently booked loss on the equity portfolio. Overall operations in the Russian railway sector contributed about €42 million to the EBRD's bottom line, equivalent to 2.1 per cent of the gross financing. Justification for the ratings is given in the following sections with supporting details in Annex 13.

Debt portfolio

Most of the debt funding was in the form of senior loans, although three transactions (RZD Confidential 2010; RZD Energy Efficiency; Brunswick Rail 2012) involved international bonds. The Russian railway debt portfolio performed well in terms of investment return:

(i) the EBRD's profits were 87 per cent of net operating income a significantly better margin than the corresponding figures for the Russian debt portfolio (74 per cent) and the EBRD's total debt portfolio (62 per cent);[65]

(ii) net project costs as a percentage of net operating income was considerably lower for Russian railway operations (5.9 per cent) than for debt operations in Russia (12.9 per cent) or for the EBRD's total debt (16.7 per cent);[66] and

(iii) provisions represented 8.5 per cent of net operating income compared to 18.5 per cent and 34.5 per cent for Russia and the EBRD as a whole.

Taken as a whole, the profits on the Russian railway debt operations were 6.7 per cent of the total volume of commitments made between 1996 and 2014. That was marginally higher than the 6.5 per cent recorded for Russian debt portfolio and considerably higher than the 4.7 per cent for the EBRD's entire debt portfolio (see Annex 13).

A project-by-project assessment of the 9 Russian railway projects financed by debt for which sufficient data was available resulted in a rating of *fully satisfactory* rating bordering on *excellent*. Investment returns were rated *fully satisfactory* or *excellent* for 8 of those 9 projects and *unsatisfactory* for one. The RZD Energy Efficiency bond is still being held but significant profits were made when the RZD 2010 and Brunswick Railbonds were sold.[67] Six of the 7 transactions using senior loans were rated *fully satisfactory* or *excellent*. The loss for the one *unsatisfactory* project involving a senior loan is expected to be in the US$30 million to US$35 million range. That loan was classified as impaired and provisions have been provided for it in the EBRD's financial statements since 2009. It accounts for about 2 per cent of the total debt financing that was provided by the EBRD for Russian railway projects. This impaired loan ratio is about half of the average for the corporate debt portfolio (3.9 per cent as of the end of 2014).

Performance ratings

Drawing on the analysis of both portfolio data and project-by-project information, the investment profitability of the debt portion of the Russian railway portfolio was rated *excellent* because the portfolio data indicates all of the figures for the Russian railway portfolio were better than the comparators used to benchmark performance, evidence that was sufficient in the opinion of the evaluation to assign this rating rather than the project-by-project rating of *fully satisfactory* bordering on *excellent*.[68]

Equity portfolio

The value of equity investments is determined by company financial performance, the performance of stock markets for listed shares, currency movements and investor sentiment reflecting macroeconomic conditions, country risks and geopolitical risks. During periods of economic turmoil equity values were depressed. At the corporate level, the EBRD has incurred financial losses in only five years since it was founded and the 2014 loss was the first loss reported since the 2009 global financial crisis. The 2014 financial loss reflected the fall in the value of Russian equity investments due to the rouble's depreciation against international currencies and provisions against other losses in Russia and Ukraine. The EBRD's corporate profit or loss is sensitive to the financial performance of its Russian portfolio because it is the largest country portfolio, amounting to €5.8 billion in 2014, about a quarter of the EBRD's total portfolio.

About a quarter of the financing for the Russian railway sector was in the form of equity. This included two projects involving international IPOs (TransContainer; Globaltrans), one project that involved an investment fund and some smaller investments. In monetary terms the EBRD continues to hold most of its equity investments although it has exited from other, mostly small, investments. Based on booked fair market values, returns on its equity investments in the Russian railway sector were disappointing. Based on fair market value, figures for 2011, 2013 and 2014 show losses, although the portfolio had a positive value in 2012.[69] However, for all four years the estimated IRRs for the Russian railway equity portfolio were negative. The return on railway equity investments was benchmarked against the EBRD's returns for the Russian equity portfolio and the total equity portfolio. Returns were volatile with losses recorded in 2011 and 2014 for both comparators compared to profits in 2012 and 2013. The IRR for the corporate equity portfolio was positive, although modest, for all four years and positive for the Russian equity portfolio from 2011 to 2013 before turning negative in 2014. Overall, the Russian railway equity portfolio under-performed these two benchmarks and, as of the end of 2014 was expected to record a substantial loss. Although there were significant positive additionality and transition benefits associated with these equity investments they detracted from the EBRD's financial profitability (see Annex 13). This disappointing outcome was confirmed by a project-by-project assessment of the six Russian railway projects financed by equity for which information was available.

Performance rating

The investment performance for 1 of these projects was rated *excellent*, 1 *partly unsatisfactory* and the four largest equity investments *unsatisfactory*. Drawing on the analysis of both portfolio data and project-by-project information, investment profitability of the equity portion of the Russian railway portfolio was rated *unsatisfactory*. The equity investments are expected to result in a loss and the return on the equity investments in the Russian railway underperformed the two comparators used to benchmark performance.

7.4 Bank handling

The EBRD strives to maintain high standards of project management from project conception through implementation to completion to achieve the desired outcomes. Management makes significant efforts to ensure that all operations are consistent with the EBRD's standards and core principles and are delivered in the manner that enhances its reputation as one of the most reliable financial institutions working in the region.

The railway sector is Moscow centred since most railway company corporate headquarters and government offices involved in rail sector policy/regulation are located in the capital. Until 2014 the Director of the Transport's team in London hired locally based staff to support the development of the business on the ground and managed the EBRD's operations in the Russian railway sector. Beginning around 2006 there was a gradually growing role for the Moscow Resident Office (MRO) as an increasing number of staff were based in Moscow, including the Director for Russia Infrastructure who has dual reporting responsibilities to the Managing Directors of both Russia and Infrastructure. Post-2013 the Russia and Central Asia transport business was transferred to the responsibility of the MRO-based Director for Russia and Central Asia Infrastructure and MRO had a self-contained transport team. If additional human resources are needed, they are mobilised from satellite offices or from the transport team in London.

Assessing handling involved determining the extent to which the EBRD efficiently conducted due diligence, structured the project and managed implementation including whether it proactively identified and resolved problems, managed risk, monitored and reported on progress during implementation and managed client relations. There is a well-established system for project selection, processing and implementation supervision. The evaluation undertook a project-by-project analysis of handling during the processing (project identification; preparation; design; structuring) and project implementation (procurement; implementation; monitoring; reporting; client relations). Handling was rated *excellent* bordering on *fully satisfactory*, based on the ratings assigned to four criteria: (i) handling during project processing and implementation -- *fully satisfactory*; (ii) handling environmental and social issues -- *fully satisfactory*; and (iii) handling unexpected developments – *excellent*. Of the 14 completed projects for which ratings were available in OPAs/OPAVs, handling was rated *satisfactory* or better for all but one – 2 were rated *excellent*, 8 *good*, 1 *satisfactory/good* and 2 *satisfactory* (see Annex 14).

The selection of railway projects was consistent with the country strategies and transport strategies and other policies (e.g., for energy efficiency; environmental and social sustainability; foreign domiciliation; procurement). The preparation of railway projects involved developing guarantees, collateral and instruments that for the most part successfully safeguarded the EBRD against excessive financial, institutional and integrity risks. The generally good performance of Russian railway projects indicates that project selection and design were sound and that quality at entry was good. Project designs were robust and were implemented as planned with few significant changes in scope during implementation. Although three clients experienced serious financial difficulties and their projects were rated as less than fully satisfactory, those problems were caused by the 1999 Russian rouble crises and the 2008/2009 global financial crises (which realistically could not be foreseen) rather than because of project design weaknesses. In the 24-project Russian railway portfolio problems related to project selection and design were found for only two relatively early projects.

Handling during project implementation was generally good, as was indicated by the relatively smooth project implementation. Projects were implemented as planned and there were few major delays in implementation or changes in scope. Most non-RZD/MPS procurement contracts were awarded in a timely manner and all followed the procurement policy. Monitoring ensured that projects were implemented in a manner that was consistent with required policies and procedures. The required project monitoring reports, TIMS reports and OPAs/expanded monitoring reports were prepared and could be located by the evaluation team. Clients submitted the required reports on time and they were of acceptable quality. The evaluation team only identified one major problem in the area of project monitoring of the 15 projects assessed.

MRO reported that there had been no serious human resources constraints for the processing and managing the Russian transport portfolio and that the matrix management system worked well. There was a critical mass of transport bankers on the ground who maintained close contacts with clients and gather railway sector intelligence. Because of the large size of the Russian portfolio, there is high visibility within the EBRD and support from Senior Management, the Managing Director, Infrastructure and the Director, Transport, all of whom are based in London. MRO could attract good people and did not report any serious coordination problems with support offices located in headquarters.[70]

During interviews client companies provided overwhelmingly positive feedback on client management. They held the staff in high professional regard. There were no major complaints about client relations and clients did not view reporting requirements as being overly onerous. MRO staff maintained frequent contact with their clients and were available at short notice when clients wanted to discuss specific issues. Increased delegation of responsibilities and staff to MRO over the long evaluation period had a positive impact on the quality of services provided to clients.

Because of the positive feedback from all clients interviewed by the evaluation team on client relations, the project-by-project analysis of handling for 15 projects and the fact the only three serious weaknesses were identified, the evaluation rated Bank handling during project processing and implementation as *fully satisfactory*. Of the 15 projects rated, 5 (33 per cent) were rated *excellent*, 7 (47 per cent) *fully satisfactory*, 3 (20 per cent) *partly unsatisfactory* and none were rated *unsatisfactory*.

The EBRD's environmental and social guidelines were followed for all Russian railway projects and overseen by the Environment and Sustainability Department. The required Environmental and Social Impact Assessments and Environment and Social Action Plans were prepared and their implementation monitored. Typically the Board document stated that the environmental and social due diligence included discussions with the client's management and a review of an environmental and social questionnaire. The environmental and social due diligence found that increasing a company's rolling stock fleet with wagons that met EU standards would not result in significant adverse environmental or social impacts. When required, companies agreed to improve their environmental, health and safety, and quality management systems and social policies and practices to bring them into compliance with the EBRD's Performance Requirements. The companies submitted the required reports and no major environmental or social problems were reported. Of the 13 projects that were rated, 2 (15 per cent) received an *excellent* rating for handling environmental and social matters, 9 (69 per cent) *fully satisfactory*, 2 (15 per cent) *partly unsatisfactory* and none *unsatisfactory*. A large majority of projects met all the operational standards related to handling environmental and social issues and there were no significant shortcomings either during appraisal or project supervision. Based on the evidence the evaluation assigned a *fully satisfactory* rating for this dimension of bank handling.

For some projects the EBRD had to work with clients to find ways to address unexpected problems that developed during implementation. The EBRD performed well in dealing with such unexpected developments in four areas:

1/ Failure of loan syndications

Because of difficult market conditions, several syndications for B loans failed or partially failed. For some cases the EBRD increased its own account lending to fill the funding gap. The companies appreciated the additional financing because they had in good faith placed orders that committed them to purchasing freight wagons.

2/ Dealing with the adverse consequences of the global financial crises on the financial performance of clients

Two clients were in serious financial difficulty because of the adverse impact the 2008/2009 global financial crises on the railway freight sector. In both cases the EBRD played a lead role in working with the clients and commercial banks to develop restructuring plans. Working with these two companies to avoid bankruptcy enhanced the EBRD's reputation with commercial banks and demonstrated that the EBRD could play a constructive role when clients faced financial difficulty.

3/ Managing client and county exposure

As a matter of prudent financial management, the EBRD has exposure limits for both individual clients and countries. The EBRD demonstrated considerable flexibility in addressing this issue by converting debt financing for some projects to more liquid bonds, which were then sold to manage exposure issues.

4/ Changing financial terms during implementation to reflect market conditions

In a few cases loan terms were changed during implementation. Examples included lowering the interest rate margin to reflect new, more favourable conditions in the debt market, changing the loan currency from dollars to roubles to better manage a client's foreign exchange risk and from roubles to dollars when MosPrime spiked.

Performance rating

Because of these good examples of supporting clients and helping to address unexpected developments during implementation, the evaluation assigned an *excellent* rating to this dimension of handling.

8. Findings, lessons and recommendations

8.1 Answering the evaluation questions

The evaluation addressed three main questions:

What were the features, drivers, accomplishments and shortcomings of the actual operational performance of the EBRD's portfolio of Russian railway projects in delivering on the multiple dimensions of the Bank's mandate (including transition impact; sound banking and additionality)?

The key feature of the actual operational performance of the EBRD's Russian railway operations was the delivery of *good* bordering on *outstanding* results across the multiple dimensions of the EBRD's operational mandate. The operations were strategically relevant in helping to deliver the corporate objectives identified in major strategy documents (transport strategies; Russian country strategies; capital resources reviews) and were consistent with the government's railway reform programme. Results were delivered on the ground at both the project and sector level. Providing additionality, particularly financial additionality and 'crowding in' commercial financing, was a strength of the EBRD's operations. The Bank's Russian railway operations delivered transition impact at both the project and sector (contributing to the design of the railway reform programme; helping to develop a competitive, private sector dominated rail freight wagon industry) levels.

Russian railway operations demonstrated the principles of sound banking, particularly Bank handling, implementation efficiency and the EBRD's investment return on the debt portfolio. The EBRD mobilised considerable co-financing. Client companies held Bank staff and client management in high regard and resident office staff maintained frequent contact with their clients. Increased delegation of responsibilities and staff to the Moscow resident office had a positive impact on the quality of services provided to clients. There were a few areas where actual performance fell short of expectations (limited success in helping to complete stalled reforms; use of TC; demonstrated non-financial additionality; limited support to help improve the RZD's financial performance; the EBRD's losses on its equity investments in Russian railway companies). However, the many areas of *fully satisfactory* to *excellent* performance far outweighed the few areas in which performance fell short of expectations.

How did the full range of the EBRD's operations (including projects; TCs and policy dialogue) in combination contribute at the strategic level to achieving transition and sector-reform objectives by helping to influence the design and implementation of the Russian railway reform programme to support the transition to a competitive railway sector with an increasing role for the private sector?

Throughout the evaluation period the Bank was the lead international organisation in the sector. There is clear evidence that the combined effects of the projects, TCs and policy dialogue contributed to positive transition outcomes at the sector level. The EBRD's clearest contributions were helping to shape the broad sector reform programme in the mid to late 1990s and early 2000s through effective, high level policy dialogue and provision of strategic advice, helping to corporatize and unbundle RZD and helping to develop a competitive, market oriented freight wagon industry through significant lending to private companies. The EBRD's contributions to transition impact at the sector level would have been greater if it had had provided more sustained support to promote key stalled reforms (PSO; traction liberalisation) to open up more opportunities for private sector investment and if it had more effectively supported RZD transformation to a commercially viable, financially profitable company that was not dependent on government subsidies to cover losses on passenger services and for infrastructure investments. Despite these shortcomings the evidence demonstrates that the EBRD made a contribution to the successful transition of the Russian railway sector despite the fact that the EBRD's financing accounts for only a tiny fraction of the annual capital investment in the Russian railway sector.

Was there coherence and synergy in the use of the EBRD's various instruments, that is, were projects, TCs and policy dialogue used in a coordinated way?

There was limited coherence and synergy in the use of the EBRD's instruments (financing; TC; policy dialogue) in the Russian railway sector operations. The EBRD's performance in processing sound transactions that achieved their objectives was *fully satisfactory*. There was impressive support for the emerging private rail freight wagon operators that was balanced by periodic engagement with MPS/RZD. While there were good synergies between financing, TC and policy dialogue during the mid to late 1990s, TC was not a major feature of the EBRD's operations in the 2000s. Having said that, the evaluation does recognise that it became progressively more challenging to mobilise TC for the Russian railway sector from 2005 onwards. In the 2000s, although there were a few successes, the EBRD's engagement in strategic level policy dialogue was sporadic and generally not effective in overcoming resistance to major stalled reforms. The evaluation concluded that in its operations in the Russian railway sector, the EBRD placed much more emphasis on processing and implementing transactions than in using its other instruments (policy dialogue; TC) despite by broad guidance given in the transport strategies, Russian country strategies and CRRs and the use of one of the EBRD's first integrated approaches.

8.2 Main findings and lessons of the evaluation

Railway reforms have resulted in macroeconomic efficiency gains

As is typically advocated by the EBRD, the World Bank and regional development banks, sector restructuring in the rail, energy, telecommunications and water sectors involves separating operations from policy/regulatory functions, commercialising and privatising some or all of the former state monopoly and developing space for the private sector to invest and compete in the sector. The government's Russian railway reform programme was broadly consistent with the advice provided by the EBRD. Rail operations were separated from the policy regulatory functions, the Ministry of Transport became responsible for policy matters, the railway was regulated by independent agencies (FTS; FAS; specialised agencies for safety and technical matters), RZD was commercialised and some of its subsidiaries were fully or partly privatised, a competitive, private sector dominated freight wagon industry developed and the railway sector diversified its sources of financing to include syndicated loans from international and domestic commercial banks, domestic and international bonds and in a few cases international IPOs. In some areas, however, reforms were not implemented as planned (e.g., PSO; traction liberalisation; making RZD commercially viable and fully independent from government budget subsidies). Space for the private sector to invest in traction, passenger services and railway infrastructure has not yet been created. The evidence indicates that there have been macroeconomic efficiency gains in the rail sector after 13 years of generally successful implementation of the reform programme. Rail costs have fallen as a percentage of GDP, labour productivity has improved in terms of higher combined traffic units handled per employee and the real cost per combined traffic unit on the railway system has fallen. These macroeconomic efficiency gains were made despite the need for further reforms and measures to improve sector efficiency by dealing with the congestion on the network, over supply of wagons and implementing stalled reforms. The lesson for government owned railways in other countries is that the evidence demonstrates that the type of railway reforms that the EBRD typically supports result in macroeconomic efficiency gains, assuming that the reforms are well implemented.

Need for a new approach for policy dialogue in the Russian railway

The Russian railway, one of the largest in the world, successfully carried out a profound reform programme that fundamentally restructured the sector and introduced competition and market forces. The EBRD contributed to that transition by being the lead international organisation in the sector, being a trusted adviser to the government from the mid-1990s until the early 2000s, engaging in sustained policy dialogue that helped shape the reform programme, supporting landmark transactions that partly privatised two major railway subsidiaries, providing financing to most of the major emerging private sector railway companies and helping to introduce Russian railway companies to international capital markets.

In the 2000s the EBRD was not successful in effectively supporting the unfinished railway reform agenda to create more opportunities for the private sector (e.g., liberalising traction; developing a functioning PSO mechanism) or helping the Russian railway to become financially viable. The lack of use of stand-alone TC to support policy dialogue on strategic issues contributed to this outcome, although the evaluation acknowledges that it became progressively more challenging to mobilise TC for the Russian railway sector after the mid-2000s.

EvD's 2010 evaluation on policy dialogue stated, "Policy dialogue is one of the EBRD's major instruments for assisting its countries of operations to achieve their transition objectives. It is a two-way process in which the EBRD interacts with government officials, partners and other stakeholders to provide information and advice to foster improvement in the policy and regulatory setting".[71] In the EBRD there is a growing institutional focus on policy dialogue that earlier tended to receive less priority than investment operations. The changing realities in the region of operations, as was highlighted in the Transition Report 2014, require new and more sophisticated approaches to the policy dialogue. New instruments, initiatives and new ways to use available resources – financial and human – are needed to achieve higher transition impact and engage with counterparts in meaningful and sustained ways.

Given this emerging institutional context within the EBRD, the increasingly sophisticated needs of the Russian railway sector to remove blockages to moving forward on the unfinished reform agenda and the EBRD's limited leverage in the context of the massive investments that take place in the sector every year, the EBRD needs to find a new model to provide effective strategic policy advice. The policy advice needs in the Russian railway sector have evolved considerably during the last 25 years. In the 1990s there was little market related commercial expertise in the sector or expose to competition, private sector investment or international good practice in commercial railway operations, management and regulation.[72] Today there is expertise in the Russian railway sector in these areas. That means that to be a credible partner the EBRD must have access to world-class expertise in the specific areas that are related to the reforms under consideration. Such expertise is beyond what bankers could reasonably be expected to have. Ways need to be found to mobilise such expertise when it is needed.

In large countries like Russia, particularly those that have made a decision not to borrow sovereign loans from the Bank or to issue sovereign guarantees, future transition impact at the sector level is more likely to come as a result of policy dialogue, supported by TC and/or staff consultants, than from the provision of transaction based financing to private clients.[73] During the early years of engagement the Bank contributed to helping to shape the railway reform programme and to unbundle and corporatize RZD. However, one of the few major weaknesses identified by the evaluation related to the unsuccessful attempts to undertake sector level policy dialogue during the last decade. The EBRD needs to find better ways to successfully engage and undertake sector level policy dialogue that will help move stalled railway reforms forward. Because the EBRD is a small player in the Russian railway sector in financial terms there are limitations in its ability to directly influence policies. Since its resources are finite and its core strength is transaction based, the EBRD should focus sector level policy dialogue on areas that would open up increased opportunities for market development, private sector investment and competition in the railway sector.

By 2014 organisations representing railway operators had emerged, such as the Council of Railway Operators (SOZhT). The Council meets regularly with the Deputy Prime Minister in charge of transport issues Ministry of Transport, FTS, FAS, RZD, the Ministry of Economy, and other concerned government agencies.[74] The government has consulted with the Council on major policy/regulatory developments affecting the rail freight sector. Some of the policy dialogue could be done in partnership with such non-government actors. The Council of Railway Operators could provide access to their market data and share information on the perspective of private operators and their priorities for reform. The EBRD could support the Council's work by providing its expertise and sharing international experience when the Council is drafting papers on new legislation or regulatory matters for consideration of government institutions. In working with, and through, others in its policy dialogue, the EBRD would leverage its areas of competitive advantage to be an advocate, a source of expertise and international knowledge and experience, a provider of research based evidence and a facilitator of public-private dialogue.

Low cost options should be sought to build stronger relations with key policy actors. For example FTS would have welcomed increased cooperation and suggested the following areas: (i) more regular meeting FTS to hold substantive discussions on desirable rail tariff reforms; (ii) MRO staff or consultants attending FTS conferences to bring international experience and good practice on tariff issues; (iii) producing knowledge products on selected topics; and (iv) sponsoring articles in, or issues of, FTS publications and journals. A similar model could be used for other agencies.

It will not always be possible to link sector level policy dialogue directly to private sector transactions. High-level policy discussions need tangible follow up to achieve the desired results in the remaining areas where reform is needed. Ways must be found to provide tangible value added, knowledge transfer and follow up on the issues raised in such policy discussions.

Finding a new niche in the Russian railway sector

The EBRD's private sector financing was dominated by providing funding for the acquisition of freight wagons. For much of the period covered by the evaluation it was possible to argue that supporting any private freight wagon company had a transition impact by increasing the proportion of wagons owned by the private sector. When the plans for the restructuring the railway sector were announced in 2001, 80 per cent of the freight wagons were owned and operated by the MPS monopoly. Now RZD does not operate any freight wagons for commercial purposes, the private sector owns 79 per cent of the freight wagon fleet and the remainder is owned and operated by commercial RZD subsidiaries. Through its considerable support for private freight companies, the EBRD made a substantial contribution to the development of a competitive, private sector dominated rail freight wagon industry, removing the shortage of railway wagons and helping to modernise the wagon fleet. However, there is now an oversupply of fright wagons, congestion on the network and a need for consolidation of the 1,800 freight wagon companies. There are no additional transition impacts to be gained if the EBRD continues to finance projects that are primarily designed to increase the proportion of freight wagons operated by the private sector. The Bank could, however, achieve incremental transition impacts by supporting mergers and acquisitions to facilitate consolidation in the freight wagon sector, balance sheet restructuring of freight wagon companies, financing new wagon technologies that improve energy and/or operational efficiency or supporting the privatisation of Federal Freight.

The good 2013 transition rating for the Russian railway sector relative to railways in other countries of operations and relative to other sectors in Russia raises some issues about whether there are significant additional transition impact gains to be had if the EBRD continues to be engaged in the sector. The evaluation found that there is an unfinished reform agenda in the Russian railway sector and that the EBRD can continue to contribute to transition in the sector by carefully selecting projects that have clear sources of transition impact. The EBRD must find new niches to achieve transition impacts in the rail sector if the EBRD's operations in the sector are to continue. That could involve supporting the private sector investing in traction, passenger services or railway infrastructure or supporting the further privatisation of RZD and its subsidiaries or financing innovative projects that involve freight wagons. However, before some of these projects become a reality, policy reforms will be needed to create the enabling environment for such investments.

Mitigating macroeconomic and currency depreciation risks

Prevailing macroeconomic conditions directly impact on the financial performance of Russian railway companies and equity investments in them. During periods of rapid economic growth the demand for rail transport grows and the margins for freight wagons are healthy. During difficult economic times as in 1999, 2008/2009 and 2013 onward demand and margins fall and significant rouble depreciation adversely affects the financial performance of companies, particularly those with significant foreign exchange exposures. Taking equity positions in, or lending to, railway companies is subject to unanticipated risks because their financial performance is directly linked to macroeconomic and market conditions. Experience has shown that unexpected macroeconomic shocks can occur and the rouble can significantly depreciate. While these factors cannot be accurately forecast, they periodically occur and adversely affect the financial performance of railway companies and equity investment profitability. Despite its robust due diligence system for equity investments, largely because of such factors the EBRD has booked consistent, substantial losses on its Russian railway equity investments. Two client companies experienced severe financial distress because of the fall out from the global financial crises. The EBRD demonstrated to the companies and the commercial banks involved in the B loan syndication that is was willing to play a leading role in helping to restructure companies and avoid out-right bankruptcy in such situations, which enhanced the EBRD's reputation in the market.

The lesson of experience is that occasional periods of difficult macroeconomic conditions were the norm rather than an unusual development over the 25-year evaluation period. Given the substantial positive transition benefits associated with equity investments, the losses on the equity portfolio do not mean that the EBRD should not engage in equity transactions in the future. However, it does suggest that ways need to be found to identify and manage macroeconomic and currency risks and to base investment decisions on more conservative forecasts, particularly when the sentiment in the market is positive. History suggests that such good macroeconomic environments do not last indefinitely.

Need to clarify definitions and indicators for non-financial additionality and transition objectives

A key evaluation finding was that providing financial additionality beyond what is available from commercial sources is a clear strength of the EBRD, particularly for projects involving the financing of assets like railway rolling stock and infrastructure that have long lives. For projects involving loans the demonstrated financial additionality ratings was driven by two factors: (i) terms and tenors; and (ii) mobilising co-financing. The EBRD's name and A/B loan instrument helped to 'crowd in' financing from market sources. Loans for balance sheet restructuring helped companies to cope with the aftermath of the 2008/2009 global financial crises and provided financial additionality because commercial banks were not lending, pricing was very high and tenors were short. All clients stated that financial additionality was one of the main reasons that they wanted the EBRD in their transaction. During interviews clients said that the EBRD's name, reputation and stamp of approval were major benefits when companies were privatised, issued international IPOs, issued international bonds or when investment fund managers were raising money. The market valued transactions that had passed the EBRD's rigorous due diligence process.

The evaluation findings were less clear in terms of demonstrated non-financial additionality. Although there were many cases when the necessary actions were taken (financial restructuring; corporate governance reforms; skill transfer and new procedures for track maintenance and procurement), there were cases when the non-financial additionality did not materialise (corporate governance reforms; expected IPOs; nominations for corporate boards; sector level policy reforms).

During the evaluation period the EBRD improved the way that it defined non-financial and transition benchmarks and specifying monitorable, verifiable indicators to determine whether or not the expected additionality and transition materialised. However, the evaluation found that there was duplication and overlap in some claimed non-financial additionality and transition impact. In other cases the indicators to measure actual results and whether or not the results were attributable to the EBRD's presence in the transaction were not well developed (claims related to some EBRD attributes, demonstration impacts and claims of sectoral impacts). Improvements were needed in four areas:

1/ Streaming the description, monitoring and reporting on the achievement of non-financial additionality and transition objectives and indicators

For many projects there was overlap and duplication in the claims of non-financial additionality and transition benchmarks. This is inefficient because the same objectives and indicators are discussed in separate places in the Board documents and the achievement of the objectives are monitored and reported on separately. Steps should be taken to streamline the definition, monitoring and reporting on the achievement of non-financial additionality and transition objectives. One option to consider would be to simplify matters by focusing additionality solely on financial additionality, as defined in EBRD's articles, and including all sources of non-financial additionality in the transition benchmarks.

2/ Clarifying what is meant by the EBRD's attributes under non-financial additionality

While some claims of non-financial additionality related to the EBRD's attributes were clear and monitorable, in other cases that was not the case. If such additionality is to be claimed it should be supported by evidence that shows how that knowledge and experience benefited the specific project in a manner that could be independently verified.

3/ Better defining how claimed demonstration impacts can be independently verified

Many Board documents and TIMS reports claimed that a project would demonstrate something that would be replicated by other railway companies. The evidence that demonstration impacts actually took place must go beyond assuming an unverified linkage between project experience and the decision by others to engage in a similar line of business or offer a similar product or service.

4/ Limiting claims of sectoral impact at the project level

In large countries such as Russia, the impact of any one project on sectoral indicators is likely to be limited and attribution is difficult to establish. Rather than claiming sectoral impacts at the project level it would be more appropriate to monitor impact at that level, without attempting to demonstrate causality. Periodic sectoral assessments or evaluations could assess the combined contribution, as opposed to attribution, of a portfolio of projects at a sectoral level. This issue and the independent verification of impact-level results at the portfolio level, is being addressed as part of the work underway to revise the project-level results framework.

8.3 Recommendations

If and when the EBRD re-engages in Russia after the current geopolitical tensions resulting from events in Ukraine are resolved, and assuming that the railway sector remains a priority sector for Bank engagement in Russia as articulated in the next country strategy, the findings of this evaluation lead to the following recommendations.

Recommendation 1

Find innovative ways to undertake sector level policy dialogue in areas that will remove barriers to private sector investment including working with non-government organisations involved in the sector. That will involve:

(i) Building close relationships with railway policy and regulatory agencies, State and regional organisations that champion reform, rail industry associations and RZD.

(ii) Advocating specific policy changes that are necessary to promote reform in the railway sector and open up more opportunities for competition and private sector investment.

(iii) Assessing country ownership of, and commitment to, the priorities for sector reform and the associated timing and sequencing and identifying high-level champions for necessary policy changes.

(iv) Developing a strategy for the policy dialogue, embedded in the country strategy, based on deep diagnostics and political economy considerations, including the policy actors targeted, the policy actions envisaged and the tools to be used to achieve the desired results that draws on a full range of instruments in the EBRD's toolkit like: (a) mobilizing headquarters-based staff with appropriate expertise, including senior Management when needed, to support MRO in undertaking policy dialogue; (b) resourcing the efforts to provide the necessary staff and consultants that have the required world-class expertise; (c) preparing targeted knowledge products; (d) sponsoring/financing conferences on carefully selected topics; and (e) mobilising stand alone, policy oriented TCs in areas where there is strong government ownership.

Recommendation 2

The EBRD should no longer finance projects for which the transition impact is primarily to increase the proportion of freight wagons owned by the private sector. The EBRD must find new niches that deliver incremental transition impacts if it wishes to continue to support the Russian railway sector. Further policy reforms would be needed to open up some opportunities for projects involving:

(i) Private sector investments in traction;

(ii) Private sector investments in passenger services;

(iii) Private sector investment in railway infrastructure, preferably using PPP, to relieve growing network congestion, support cross border trade or to support the development of relatively poor regions;

(iv) Balance sheet restructuring or mergers and acquisitions in the rail freight wagon industry to promote orderly market consolidation;

(v) Full or partial privatisation of RZD subsidiaries;

(vi) A RZD IPO;

(vii) New technologies to improve operational and/or energy efficiency.

Recommendation 3

During the processing of future railway projects, particularly those involving equity, the EBRD needs to ensure that they are sufficiently robust to withstand major, unanticipated adverse macroeconomic shocks and currency depreciations that cannot be forecast with certainty. That will involve supplementing the comprehensive due diligence process that is in place with:

(i) Analysing the impact that past macroeconomic crises have had on Russian railway projects to develop the parameters for more robust stress testing during the project processing phase for unexpected macroeconomic downturns and major currency devaluations;

(ii) Seriously discussing with clients the EBRD's options of providing local currency denominated financial support;

(iii) More cautiously assessing the potential risks related to equity investments, including those associated with adverse macroeconomic conditions and reflect those risks in its equity valuation and pricing estimates;

(iv) Searching for equity exit mechanisms that provide greater protection to the EBRD.

Recommendation 4

Improvements are needed in defining what is meant for some aspects of non-financial additionality and transition benchmarks and sharpening the definitions and indicators that will be used to determine whether or not the desired results are realised and are related to the EBRD's participation in the transaction, which will involve:

(i) Streamlining the description, monitoring and reporting on the achievement of non-financial additionality and transition objectives and indicators;

(ii) Clarifying what is meant by the EBRD's attributes under non-financial additionality;

(iii) Determining how claimed demonstration impacts can be independently verified;

(iv) Limiting claims of sectoral impact at the project level, monitoring impacts at the sector level without focussing on attribution and assessing the combined contribution of a portfolio of similar projects in periodic sectoral assessments or evaluations.

9. Additional study documents

Approach Paper for the Russian Railway Sector Evaluation

Working Paper No. 1: Railway Sector Reform Programme

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Annex 1: Results framework for the Russian railway sector evaluation

Inputs

- EBRD staff time
- Consultant input
- Funding for projects and TCs

Activities

- Indentifying and processing projects in the Russian railway sector using a range of products
- Monitoring the implementation of projects
- Identifying and processing TCs and monitoring their implementation
- Undertakng policy dialogue
- Mobilising funds from other sources and addressing energy efficiency and integrity issues

Outputs

- Number of successful completed Russian railway projects
- Number of successful competed TCs in the Russian railway sector
- Completed policy dialogue and sector work
- EBRD's demonstrated additionality and contribution to transition
- Demonstrated sound banking

Outcomes

- Reform and restructure the railway sector to clarify the roles of the government and operators, improve the market structure and introduce competition and a commercial orientation
- Develop a private sector dominated freight wagon market
- Improve RZD's financial performance

Impacts

- Improving macroeconomic efficiency in the Russian railway sector and reducing the share of the cost of rail transport in GDP

Major criteria used to assess relevance, results and efficiency

Relevance	• Degree to which the Russian railway operations were aligned with and contributed to the delivery of corporate goals set in transport strategies, Russian country strategies and the Capital Resources Reviews; • The feasibility of the Russian railway strategy in the context of the government's sectoral strategy • Additionality
Results	• The achievement of project objectives/outputs • Contributions to transition outcomes (i.e., project level transition outcomes; contribution to strategic railway sector restructuring; contribution to the development of a competitive, private sector dominated rail freight market; improving RZD's financial performance) • Contribution to intended sectoral impact (i.e., reduction in the railway's share of GDP; improved railway sector macroeconomic efficiency)
Efficiency	• Company financial performance • Implementation efficiency • Investment profitability, distinguishing between the debt and equity portfolios • Bank handling during project processing and project implementation, handling environmental/social issues and handling unexpected challenges
Overall performanc e	• And ratings for **Additionality, Transition Impact** and **Sound Banking** were derived from the assessments of the related criteria.

Annex 2: Summary of the reform of the Russian railway sector

Pre-2001	– MPS created from the larger Soviet MPS – Set out a vision for reform of the railway sector (1995) – Adopted legislation (1995) and decrees (1997 and 1998) consistent with the reform vision – Shed some social services and privatised some railway supply industries – Introduced competitive bidding into MPS's procurement processes – Began reducing staffing levels
2001-2003	Establishing the legal framework: – Adopted the law and regulations to separate policy/regulatory functions and commercial/business functions – Assessed assets, audited companies and consolidated accounts
2003-2005	Asset unbundling and institutional and legal separation of some of RZD's lines of business or subsidiaries by: – Federal Railway Transport Agency in the Ministry of Transport made responsible for railway sector policy – ROSTRANSNADZOR made responsible for transport safety monitoring – Federal Energy Commission (later - Federal Tariff Service) regulates rail tariffs – Federal Antimonopoly Service restructured and regulations railway services provided by RZD as a natural monopoly – Created RZD as a company that initially took over all of MPS's assets and operating responsibilities – Maintained RZD as a single owner of infrastructure, signalling, dispatching system and mainline locomotives. – Created 27 RZD subsidiaries including those for: ➢ Intermodal freight services ➢ Refrigerated freight services ➢ Transportation of wood and wood products ➢ Transportation of automobiles ➢ Production and repair of track maintenance equipment – Decree on non-discriminatory access to railway infrastructure issued – Issued new edition of Tariff 10-01 to encourage private investment in freight wagons and Tariff 10-02-16 for passengers. Freight tariffs for wagons owned by private companies or RZD subsidiaries deregulated. – Began phasing out cross-subsidisation of passenger operations by freight operations – Introduced IFRS accounting and increased financial transparency by disclosing audited statements.
2006-2010	Promoting competition for the provision of passenger and freight services by continuing to create RZD subsidiaries: – More freight subsidiaries including Freight One and TransContainer – Long distance passenger services (Federal Passenger Company) – Commuter passenger services with regional governments – Locomotive and rolling stock repair facilities – Construction services – Research and development – Began selling RZD shares in subsidiaries (e.g., TransContainer; wagon depots) and established the first PPPs – RZD issued international bonds – Revised and adjusting the tariff policy – Subsidised long distance passenger and commuter services from government and

	regional government budgets
2010-2015	Continuing the reforms: – Full privatisation of Freight One – Established Federal Freight (formerly Freight Two), the remaining 100 per cent RZD owned freight railcar operator – Continued selling or preparing to sell equity stakes in RZD subsidiaries (e.g., Freight One) and RZD itself – Changes in Tariff 10-01: separation of infrastructure and locomotive component; harmonization of tariffs to Russian and Baltic ports to comply with a World Trade Organisation agreement; equalisation of empty return tariffs for some types of universal wagons, stopping the practice of exceptional tariffs; allowing RZD tariff corridors (-12 per cent/+13 per cent); equalisation of tariffs within the Customs Union – Public discussion on the creation of private carriers that operate both their own wagons and locomotives – End cross subsidy of passenger services by revenue from freight services – Deregulated high quality long distance passenger fares. The cheapest passenger fares are regulated and subsidised – Suburban passenger companies no longer legally part of RZD – First auction to sell shares in passenger commuter subsidiary – FTS approves regulated return on asset base tariff methodology but it is not yet implemented.

Sources: (i) EvD. Operation Performance Evaluation Review Railways Modernisation Project. January 2005; (ii) Various Board documents; (iii) RZD Homepage; and (iv) Community of European Railway and Infrastructure Companies. Reforming Europe's Railways – Learning from Experience. 2011. Pages 33–45.

Annex 3: Russian railway projects

	Project (year approved)	*Type of Client[B]*	*Instrument Type*	*Type of Organisation*
1	Russian Railways Modernisation (1996)	State Sector	Debt	RZD
2	SovFinAmTans (SFAT)/TRANSFAT (1996)	Private	Debt /Equity	Freight Wagons and Locomotives
3	SovFinAmTans (SFAT)/TRANSFAT (1996)	Private	Debt	Freight Wagons and Locomotives
4	Hansa Leasing Russia (2002)	Private	Debt/Equity	Freight Wagons
5	BaltTransServis Ltd (BTS) (2004)	Private	Debt	Freight Wagons
6	John Nurminen - Wagon Financing (2006)	Private	Debt	Freight Wagons
7	TransContainer (2007)	Private, non-sovereign	Equity	Freight Wagons (RZD Subsidiary)
8	Basis Leasing/InPromLeasing (2007)	Private	Debt	Freight Wagons
9	Sinara Transport Machines (2008)	Private	Debt	Locomotive Manufacturing
10	Freight One (2008)	Public, non-sovereign	Debt	Freight Wagons (RZD Subsidiary)
11	Far Eastern Shipping Company (FESCO) (2008)	Private	Equity	Freight Wagons
12	Globaltrans (2008)	Private	Equity	Freight Wagons
13	RZD (2009)	Public, non-sovereign	Debt	RZD
14	Far East Shipping Company (FESCO) II (2009)	Private	Debt	Freight Wagons
15	NPK - New Forwarding Company (2010)	Private	Debt	Freight Wagons
16	Brunswick Wagon Leasing Limited (2010)	Private	Debt	Freight Wagons
17	RZD Confidential (2010)	Public, non-sovereign	Debt	RZD
18	RZD Energy Efficiency Project (2011)	Public, non-sovereign	Debt	RZD
19	Nurminen Wagons Russian Fleet Expansion (2011)	Private	Debt	Freight Wagons
20	Lokomotive Globaltrans (2012)	Private	Debt	Freight Wagons and Locomotives
21	Brunswick Rail (2012)	Private	Debt	Freight Wagons
22	Far Eastern Rail (2013)	Private	Debt	Freight Wagons
23	Brunswick Rail (former Alpha Rail) (2013)	Private	Equity	Freight Wagons
24	Cotton Way (2013)	Private	Debt	Laundry Facilities
	Total amount disbursed	**€1,863m**		
	Range in project size	**€8m-€448m**		
	Average project size	**€96m**		

Annex 4: TCs provided to support the Russian railway portfolio

Name of TC (year of approval)	*Related Operation*	*Disbursed Amount (EUR)*	*Type of TC*	*Source of Financing*
Soviet transport and logistic studies (1991)		188,400	Sector Work	United States
Soviet transport and logistics studies (1992)		179,469	Sector Work	Japan
Soviet railways sector survey (1992)		437,978	Sector Work	Taipei China
Soviet railways sector survey (1992)		327,537	Sector Work	Japan
Transport conference - modernising Russia's transport system - the transition to a market economy (1993)		47,635	Advisory Services	United Kingdom
Russian railways modernisation - project co-ordinator (1993)	Railway Modernisation	268,620	Project Preparation	Japan
Russian railways modernisation - strategy for market adaptation (1993)	Railway Modernisation	348,559	Project Preparation	Japan
Russia railways modernisation - track maintenance (1993)	Railway Modernisation	197,601	Project Preparation	Japan
Russian railways modernisation - Telecommunications and Freight Management Systems (1993)	Railway Modernisation	36,240	Project Preparation	Japan
Russian railways modernisation - Telecommunications and Freight Management Systems (1993)	Railway Modernisation	35,000	Project Preparation	Japan
Railways modernisation - development of intermodal (container) transport (1993)	Railway Modernisation	173,751	Project Preparation	Japan
Besotra trailer project (1993)	Besotra Trailer Project	34,643	Advisory Services	United States
Russian railways - improvement of railway passenger services (1993)	Railway Modernisation	309,670	Project Preparation	EU
Voronezh railcar feasibility study (1994)		189,275	Project Preparation	Germany
Russian railways - rolling stock rehabilitation and modernisation (1994)	Railway Modernisation	206,322	Project Preparation	EU
Russian Railways modernisation project - track maintenance and rehabilitation (1994)	Railway Modernisation	165,115	Project Preparation	Canada
Russian Railways modernisation - track maintenance and rehabilitation in permafrost areas (1994)	Railway Modernisation	28,818	Project Preparation	Canada
Railways modernisation project - track rehabilitation (1995)	Railway Modernisation	183,109	Project Preparation	France
Russian Railways modernisation - procurement and institutional assistance for the Ministry of Railways (1995)	Railway Modernisation	174,862	Advisory Services	Canada
Railway engineering services for preparation of Bank projects (Estonia, Lithuania, Russia) (1995)	Railway Modernisation and Estonian	23,681	Project Preparation	Canada
Berlin/Moscow passenger train equipment test (1995)	Berlin-Moscow Passenger Train	356,701	Project Preparation	Spain
Berlin-Moscow passenger train - equipment test and market study (1995)	Berlin-Moscow Passenger Train	199,871	Project Preparation	EU
Russian railways modernisation - institutional development and commercialisation of the track (1996)	Railway Modernisation	468,093	Project Implementation	EU
Russian railways modernisation - implementation of market structures (1996)	Railway Modernisation	827,484	Project Implementation	EU
Support for preparation and monitoring of transport projects - railway modernisation project - audit of technical requirements (1998)	Railway Modernisation	4,300	Project Implementation	EU

Second Russian railways modernisation project - technical, procurement and environmental due diligence (1999)	Second Railway Modernisation	75,449	Advisory Services	EU
Second Russian Railways Modernisation Project - Technical, Procurement and Environmental Due Diligence - Final Phase (2000)	Second Railway Modernisation	10,212	Advisory Services	EU
Freight Car Market Study (2003)	Russia: AAE Railcar Leasing	48,014	Project Preparation	United Kingdom
Freight Cars Supply and Pricing Analysis (2003)	Russia: AAE Railcar Leasing	54,647	Project Preparation	EU
Evaluation of Russian Railways Modernisation project (2004)		15,840	Advisory Services	Austria
Institutional Development of First Freight Company (2009)	Freight One	150,000	Advisory Services	Germany
Russian Corporate Sector Opportunity Study: Business Plan Preparation (2009)	Cotton Way	186,500	Advisory Services	Shareholders Special Fund
Regional Energy Efficiency Programme for the Corporate Sector-Germany-D'Appolonia-RZD (2011)	RZD Energy Efficiency	62,510	Advisory Services	Germany
EBRD/UNIDO: Market Transformation Programme on Energy Efficiency in Carbon Intensive Industries in Russia: Energy Management System Capacity Building, Systems Optimisation and Energy Audits (2013)	Cotton Way	38,009	Project Implementation	GEF
Total		**6,053,915**		

Source: Evaluation Team derived from EBRD’s data sets

Annex 5: Performance ratings for the Russian railway portfolio

Annex 5.1: Performance Ratings of the Russian Railway Portfolio, Relevance – Alignment With/Support for Delivering Transport and Country Strategies

Criteria / *Sub-Criteria*	*Ratings*	*Score*	*Weighting*
1. Relevance	**Fully Satisfactory**	**0.83**	
1.1 Strategic Relevance of Railway Sector Strategy	***Excellent***	***0.94***	***Medium***
1.1.1 Alignment with / Support for Delivering EBRD's Transport Strategies	*Excellent*	*1.09*	*High*
1.1.1.1 Policy Dialogue to Support Railway Sector Restructuring During the Pre-Reform Era	*Excellent*	*2.00*	*Medium*
1.1.1.2 Policy Dialogue to Support Railway Sector Reform After the 2001 Sector Restructuring	*Partly Unsatisfactory*	*-0.43*	*Medium*
1.1.1.2.1 Support for Sector Reforms from 2002 to 2004	*Unsatisfactory*	*-2.00*	*Medium*
1.1.1.2.2 Supporting the Development of a PSO Mechanism	*Unsatisfactory*	*-2.00*	*High*
1.1.1.2.3 Supporting for Traction Liberalisation	*Unsatisfactory*	*-2.00*	*High*
1.1.1.2.4 Supporting the Use of Public Private Partnerships in the Rail Sector	*Fully Satisfactory*	*0.50*	*Medium*
1.1.1.2.5 Supporting Tariff Harmonisation Between Russian and Baltic Ports	*Excellent*	*2.00*	*Medium*
1.1.1.2.6 Supporting Non-Discriminatory Access to Railway Infrastructure	*Excellent*	*2.00*	*Medium*
1.1.1.2.7 Support for the Federal Services for Tariffs for Rail Tariff Reform	*No Opinion Possible*	*0*	*Not Included*
1.1.1.3 Support for RZD Unbundling and Corporatizing / Privatising RZD Subsidiaries	*Fully Satisfactory*	*0.50*	*Medium*
1.1.1.4 Support for Private Sector Investment	*Excellent*	*2.00*	*High*
1.1.2 Alignment with / Support for Delivering EBRD's Russian Country Strategies	*Fully Satisfactory*	*0.81*	*High*
1.1.2.1 Growth and Evolution of the Russian Railway Portfolio	*Excellent*	*2.00*	*High*
1.1.2.2 Addressing Energy Efficiency	*Fully Satisfactory*	*0.50*	*Medium*
1.1.2.3 Addressing Corruption	*Fully Satisfactory*	*0.50*	*High*
1.1.2.4 Use of Technical Cooperation	*Partly Unsatisfactory*	*-0.50*	*Low*
1.1.2.5 Donor Coordination	*Not Applicable*	*0*	*Not Included*

Source: EvD's assessment.

Annex 5.2: Performance Ratings of the Russian Railway Portfolio, Relevance – Alignment With/Support for Delivering Capital Requirements Reviews, Alignment With the government's Railway Strategy and Additionality

Criteria / Sub-Criteria	Ratings	Score	Weighting
1.1.3 Alignment with / Support for Delivering EBRD's Capital Requirements Reviews	Fully Satisfactory	0.88	Low
1.1.3.1 Mobilising Other Sources of Financing	Fully Satisfactory	0.50	High
1.1.3.2 Range of Products Used	Excellent	2.00	Low
1.1.3.3 Use of Local Currency Instruments	Fully Satisfactory	0.50	Low
1.2 Feasibility of EBRD's Russian Railway Operations	Fully Satisfactory	0.50	Medium
1.3 EBRD's Additionality	Excellent	1.00	High
1.3.1 Expected Additionality	Excellent	1.50	Low
1.3.1.1 Expected Financial Additionality	Excellent	1.90	High
1.3.1.2 Expected Non-Financial Additionality	Fully Satisfactory	0.70	Low
1.3.2 Demonstrated Additionality	Fully Satisfactory	0.74	High
1.3.2.1 Demonstrated Financial Additionality	Excellent	1.60	High
1.3.2.1 Demonstrated Non-Financial Additionality	Partly Unsatisfactory	-0.40	Medium

Source: EvD's assessment.

Annex 5.3: Performance Ratings of the Russian Railway Portfolio, Results, Efficiency and Overall Performance

Criteria / *Sub-Criteria*	*Ratings*	*Score*	*Weighting*
2. Results	Fully Satisfactory	0.68	
2.1 Achievement of Project-Level Outputs	*Fully Satisfactory*	*0.70*	*High*
2.1.1 Achievement of Project Objectives / Outputs	*Fully Satisfactory*	*0.80*	*High*
2.1.2 Achievement of Project-Level Transition Objectives / Outputs	*Fully Satisfactory*	*0.60*	*High*
2.2 Contribution to Intended Railway Sector and Transition Outcomes	*Fully Satisfactory*	*0.77*	*Medium*
2.2.1 Contribution to Strategic Railway Sector Restructuring	*Fully Satisfactory*	*0.50*	*High*
2.2.2 Contribution to Developing a Competitive, Private Sector Dominated Rail Freight Market	*Excellent*	*2.00*	*High*
2.2.3 Contribution to Improving the Financial Performance of the RZD Group	*Partly Unsatisfactory*	*-0.50*	*Medium*
2.3 Contribution to Intended Sectoral impacts	*Fully Satisfactory*	*0.50*	*Low*
3. Efficiency	Excellent	0.92	
3.1 Company Financial Performance	*Fully Satisfactory*	*0.08*	*Medium*
3.2 Implementation Efficiency for the Russian Railway Portfolio	*Excellent*	*2.00*	*Medium*
3.3 EBRD Investment Profitability	*Fully Satisfactory*	*0.67*	*High*
3.3.1 Debt Portfolio	*Excellent*	*2.00*	*High*
3.3.2 Equity Portfolio	*Unsatisfactory*	*-2.00*	*Low*
3.4 EBRD Handling	*Excellent*	*0.98*	*High*
3.4.1 During Processing and Implementation	*Fully Satisfactory*	*0.40*	*High*
3.4.2 Handling Environmental and Social Issues	*Fully Satisfactory*	*0.60*	*Low*
3.4.3 Handling Problem Projects	*Excellent*	*2.00*	*Medium*
Overall Project Performance Rating:	Good	0.82	
4. Derived Ratings			
4.1 Transition Objectives	*Fully Satisfactory*	*0.70*	
4.2 Sound Banking	*Fully Satisfactory*	*0.71*	
4.3 Additionality (see 1.3 above)	*Excellent*	*1.00*	

Source: EvD's assessment.

Annex 6: Performance ratings for completed Russian railway projects

Project Name	*Overall Rating*[A]	*Transition Impact*	*Company Financial Performance*	*Additionality*	*Fulfilment of Objectives*	*Environmental Performance*	*Environmental Change*	*Bank Handling*	*Investment Performance*
Project 1	Successful	Good	Good	Fully verified	Good	Good	Some	Good	Good
Project 2	Partly Successful	Unsatisfactory	Marginal	Partly verified	Marginal	Marginal	Some	Marginal	Marginal
Project 3	Successful	Good	Excellent	Largely verified	Good	Good	Some	Excellent	
Project 4	Successful[B]	Good	Good	Partly verified	Good	Good	None/Negative	Good	
Project 5	Successful	Good	Good	Largely Verified	Good	Satisfactory	Some	Good	
Project 6	Partly Successful	Satisfactory	Marginal	Largely verified	Satisfactory	Satisfactory	Some	Satisfactory	Highly Unsatisfactory
Project 7	Successful	Excellent	Satisfactory	Fully verified	Satisfactory	Good	Outstanding	Excellent	Satisfactory
Project 8	Successful	Good	Good	Fully verified	Good	Good	Substantial	Good	Satisfactory
Project 9	Successful	Good	Good	Largely verified	Good	Good	Substantial	Good	Satisfactory
Project 10	Unsuccessful	Marginal	Marginal	Partly verified	Unsatisfactory	Satisfactory	Some	Satisfactory/Good	Highly Unsatisfactory
Project 11	Successful[B]	Good	Good	Largely verified	Good	Good	Some	Good	
Project 12	Successful[B]	Good	Excellent	Good	Good	Good	NR	Good	
Project 13	Successful	Satisfactory/ Good	Excellent	Partly verified	Good	Satisfactory	None	Good	Satisfactory
Project 14	Successful	Good	Good	Fully Verified	Good	Good	Substantial	Satisfactory	na

Notes: A = Overall Performance Rating and the component ratings come from independent evaluation ratings when available
B = Overall Performance Rating and component ratings come from self evaluation ratings when no independent evaluation ratings were available
Source: Evaluation Team derived from EBRD data sets

Annex 7: Five principles for restructuring the Russian railway

1/ Commercialising railways requires a clear separation of the policy and regulatory roles of government from the commercial responsibilities of railway managers

(i) a new Ministry of Railways or a railway division in a Ministry of Transport should set the policy framework;

(ii) public and privately owned companies should run railway transport services and railway support industries; and

(iii) an independent regulatory body should monitor abuses of market power by railway companies in matters such as tariff setting, track access and anti-competitive practices.

2/ Implementing financial compensation arrangement with governments for unprofitable passenger services which governments (national and regional) require the railway to operate for social reasons

Reduce the high freight tariffs that cross subsidized passenger tariffs within a reasonable period of time by adopting the following policies:

i) through an independent regulatory agency, measure and publish the level of cross-subsidy annually, while redefining it as a special levy on freight;

ii) gradually increase the federal and regional budgetary support for passenger services over five years until (together with fare adjustments) full passenger cost recovery can be attained; and

iii) reduce the special freight levy by corresponding steps. The EBRD recognised that not all passenger services could be financially self-supporting and recommended that there should be a contractual basis, phased in over five years, for financial support from central or local governments including agreed productivity improvement targets for passenger services and a transparent and stable regime for financial support.

3/ Developing new management structures that are based on different types of businesses and which focus on market needs

i) Commercialising the rail sector requires establishing coherent, individually managed businesses. The EBRD recommended dividing MSP and its functional departments over three to five years into 40 to 60 companies based on business segments that would be profit and loss centres.

ii) Passenger companies: (a) long distance passenger companies; (b) commuter rail systems operated as separate companies for each major conurbation; and

iii) gradually separate regional passenger services in major conurbations (e.g., Moscow; St. Petersburg, etc.) from the 17 regional railway administrations when funding arrangements are put in place. Passenger companies would own their own coaches, crews and maintenance centres and in large cities control their own infrastructure. A small number of long distance companies would pay infrastructure access charges.

iv) Freight companies: (a) create a small number of national and regional freight companies; (b) ensure customers can chose from at least two companies; and (c) set up one intermodal company (mainly containers). Freight companies would own or lease their own wagons and would initially purchase locomotive haulage, train crews and infrastructure access from regional railway administrations but would be encouraged to invest in locomotives and crews in due course.

v) Consolidate the 17 regional railway administrations: Consolidate into 8 to 10 regional railway administrations to act primarily as infrastructure companies selling track access and gradually divesting from regional passenger services.

4/ Adopting challenging business plans that demonstrate commitment to achieving high labour and capital productivity

The target was to increase average productivity (costs/traffic unit carried) by 3-5 per cent per year though well prepared business planning, adopting IAS accounting standards, setting regulated track access charges and tariffs and adopting a compensation mechanism for passenger services.

5/ Adopting policies and practices that, where possible and appropriate, encourage participation of the private sector

The EBRD agreed that railway tracks and infrastructure would remain in State ownership for the long term. The EBRD proposed developing roles for the private sector in:

i) railway supply industries (e.g., equipment manufacturing; heavy locomotive and wagon repair; passenger coach refurbishment; divesting of non-core assets; requiring RZD owned companies to implement competitive tendering for railway support industries);

ii) leasing and renting rolling stock: (e.g., locomotives; wagons; rail cars);

iii) specialist technologies (e.g., container terminals; telecommunications networks); and (iv) train operations: (e.g., creating and privatising freight companies; introducing access rights for new private companies that wish to compete in providing freight and long distance passenger services; allowing private train operators equal access to the infrastructure). The EBRD felt that commuter and intra-regional passenger services were likely to be loss making, did not provide much scope for economic competition and would likely remain in public ownership. An increasing proportion of the cost of commuter passenger services should be sourced from regional governments under contractual arrangements.

Note: The policy dialogue on sector restructuring culminated with the preparation of the January 2001 Discussion Paper on Proposed Railway Reforms in the Russian Federation for the Prime Minister that set out five key principles as well as supporting detail. The EBRD's 2001 railway restructuring policy paper included a suggested sequencing that grouped the reforms into five broad areas: (i) establishing high level institutions for policy, regulation and operations (Year 1); (ii) developing new railway corporate structures for infrastructure, freight and long distance and commuter passenger services (Years 2 to 4); (iii) budgetary compensation for public service obligations (Years 3 to 8); (iv) improve efficiency and operations of companies (Years 1 to 3 and onwards); and (v) encourage competition and private sector participation, focussed mostly on freight operations (Years 2 to 4 and onwards).
Source: The EBRD. Discussion Paper on Proposed Railway Reforms in the Russian Federation. Prepared for the Prime Minister. January 2001

Annex 8: Assessing policy dialogue after 2001

Early support for implementation of sector reforms from 2002 to 2004

The positive role in supporting railway sector reform was not maintained in early 2000s. By 2004 because of the completion of the Railway Modernisation Project, the absence of additional lending to RZD and significant turnover in the EBRD and senior RZD staff there was no continuing direct relationship with RZD and the EBRD was no longer directly involved in the railway restructuring and reform process.[75] The proposed Second Railway Modernisation Project was to be complemented by a TC to support project implementation and the railway reform programme in strategically important areas.[76] The EBRD made provision of the TC conditional on the approval of the loan for the Second Railway Modernisation Project. By not being willing to process a standalone, policy based TC the EBRD missed an opportunity to actively support the early implementation of key reforms. The *unsatisfactory* rating of this criteria and the absence of tangible support during the early stages of the implementation of the railway reform programme was not consistent with the strategic agenda set out in the transport strategies nor the role of the leading donor in the sector. After 2004 the EBRD needed to find new ways to influence the railway reform process because the government decided not to borrow sovereign loans or issue sovereign guarantees for loans from IFIs.

Support for developing the PSO mechanism

On paper the EBRD has long advocated for the adoption of a PSO mechanism in its transport strategies and in the 2001 paper on restructuring the Russian railway. The EBRD's railway sector reform strategy in the RZD 2009 integrated approach included introducing a PSO mechanism by 2011. In 2011 the possibility of the Bank becoming involved in the suburban passenger sector through long term Public Services Contracts was explored.[77] RZD sought the EBRD's participation to help create a model for passenger train operations and was drafting a law to require local governments to finance the subsidies. However, the regional governments did not have the resources to finance their PSO obligations. The EBRD provided a short knowledge product drawing on successful PSO examples from other countries but otherwise there is no record of sustained involvement to help develop the long delayed PSO mechanism. For example there was no evidence in EBRD files that the Bank identified which actors in the sector supported or opposed such reforms, estimated the cost of the PSO for the Federal and regional governments, the desirable service levels, the potential cut costs including substituting bus services or the willingness or otherwise of the federal government, regional and local governments to share the cost of the PSO. By the end of 2014 the government had not adopted a PSO mechanism. This issue came to a head in early 2015. Because local governments were not providing the funding to cover losses, RZD suspended regional passenger services in many regions. That led to a public outcry and a public rebuke to officials from the Russian President. The next day the trains began to run again although it was not clear from press articles whether RZD, regional governments or the Federal government would cover the losses. Those events underlined the importance of developing a functioning PSO mechanism. Although there was evidence that there were limited discussions on the PSO mechanism, a more vigorous approach, possibly supported by TC or staff consultants, should have been adopted to consistently advocate at high levels for a PSO, help the government make progress on developing and implementing this important reform and to remove blockages within the government for such a system. Given that the EBRD recognised for over a decade that this was an important sector reform issue, it was assigned a high weight. The Bank's limited contribution to developing a functioning PSO mechanism was rated as *unsatisfactory*. The lack of a well-defined and properly functioning PSO mechanism remains a barrier to creating competition and attracting private capital in the passenger rail market segment.

Support for traction liberalisation

Consistent with the transport strategies and the EBRD's policy advice, the original Russian rail sector reform concept envisioned competition between licensed rail carrier companies that operated both wagons and locomotives, arranged loading and unloading, and assumed liability for the cargo transported. Although some private companies and policy makers agreed on the desirability of traction liberalisation and FTS separated the locomotive tariff from the infrastructure tariff in 2011, decisions to implement the necessary reforms were repeatedly delayed at the relevant levels of decision-making largely due to RZD's opposition. RZD continues to provide virtually all main line locomotives and traction services. The EBRD's railway reform programme in the RZD 2009 integrated approach included a benchmark that operators would be able to own and operate both wagons and traction on selected routes by 2010 and stated that RZD agreed to liberalising traction services. The importance of this reform for some private companies was highlighted by the fact that a 2012 loan offer to finance, in part, the acquisition of locomotives, lapsed because the lack of clarity on the regulatory framework made the transaction too risky for the client. Because the evaluation team did not find documentation that demonstrated a serious Bank engagement in policy dialogue after 2010 to support traction liberalisation reforms, contributions in this area were rated as *unsatisfactory*, which was assigned a high weight because it was identified as a commitment in the RZD 2009 Board document.

Support for the use of PPPs

The 2013 Transport Strategy and most recent CRRs promoted the use of PPPs in the rail sector. Staff and TC resources were provided to help develop the legal/regulatory framework for PPPs in Russia and for the transport sector in particular. MRO worked with the PPP Sub-Committee of the Duma, the Foreign Investment Advisory Council and PPP working groups of the Ministry of Transport, FAS and the Ministry of Economic Development, helped formulate legal amendments and supported the production of PPP-related knowledge products and training.[78] PPP policy dialogue drew on international good practice, provided specific examples of documentation and involved well known legal/consulting companies. The improved legal/regulatory framework should open opportunities to use this tool in the Russian railway sector at some point in the future as is envisioned in the government's long-term railway sector plan. In 2013 there was some high-level policy dialogue and discussions about the possible use of the PPP modality for high-speed rail passenger services and related knowledge products were produced drawing on good international practice. It would be premature, however, to conclude whether those efforts will ultimately be successful in catalysing a rail PPP project.[79] Overall, the policy dialogue to promote the use of PPPs in the railway sector was rated as *fully satisfactory* in delivering the policy agenda in the transport strategies and CRRs. Although good progress has been made, the rating reflects the fact that using this modality in the railway sector is still some way off given current market conditions and the need to adopt changes in the PPP law and related regulations.

Rail tariff harmonisation between Russian ports and land crossings toward Baltic ports

Early in the reform process the rail charges for border crossing towards the Baltic States were higher than for freight destined to Russian ports. By 2009 the Baltic countries had complained to the European Commission (EU) that Russia was discriminating against them by setting higher tariffs for cargoes destined to ports in those countries. The EU asked the EBRD to research and monitor this issue. Drawing on the EBRD-funded consultants' work, in 2010 the EBRD and RZD signed an agreement covering a plan to harmonise the tariffs by 1 January 2014 for all commodities exported via Russian land-borders with the Baltic States and Russian ports, with oil and oil products tariffs to be the last harmonized. Further consultant work in 2011-2012 found that that RZD and FTS were narrowing the gap faster than agreed because in 2012 Russia joined the World Trade Organisation and its rules prohibited such discrimination. Officially all discrimination ceased in 2012. However, further work undertaken in mid-2014 found that RZD was using its new tariff flexibility within tariff corridors to raise many tariffs towards the Baltic States ports, which RZD justified because of the intensive traffic on those routes. The EBRD advised FTS and RZD that such practices were discriminatory. Going forward the EBRD plans to continue monitoring Russian rail tariffs, FTS policies and RZD practices applying its tariff corridor rights. The EBRD's support for harmonising tariffs was rated as *excellent.*

Non-discriminatory access to the rail infrastructure and competition

In 2009 the EBRD discussed the issue of competition and reform in the rail sector with the Ministry of Economy, FAS and the Ministry of Transportation. FAS had prepared a decree governing rail operators and was preparing rules for non-discriminatory access to rail infrastructure and amendments to the Competition Law. The EBRD supported this process by preparing knowledge products summarising European experience and advising on the problems that private freight operators sometimes had competing with RZD and its subsidiaries.[80] FAS invited the EBRD to participate in its Expert Council on Rail Transport and some of the EBRD's comments were reflected in legislation. The EBRD's contributions in this area were rated as *excellent* since they led to tangible improvements in the regulatory framework that are consistent with the guidance given in the transport strategies.

Supporting tariff reform and FTS

In the rail sector FTS's major accomplishments since 2009 include: (i) narrowing and eventually eliminating the gap between the rail tariffs towards Russian ports and border crossings with Baltic States in accordance with World Trade Organisation commitments; (ii) separating the infrastructure and locomotive components in Tariff 10-01; (iii) equalising empty tariffs for universal gondolas and universal flat wagons; (iv) granting RZD the right to increase or lower tariffs in a corridor, within limits, depending on market conditions; (v) introducing tariff discounts for innovative freight wagons; and (vi) issuing the methodology for RAB tariffs, although such tariffs have not been implemented and the allowable return on assets has not been defined. Although the EBRD has met with FTS about once a year since 2009 related to the railway sector, those meetings appeared to be largely for the EBRD to seek information from FTS rather than to engage in serious policy dialogue. Two examples of a deeper EBRD/FTS relationship were EBRD financing staff consultants to monitor the tariff harmonisation process and to bring international rail regulation experience to a 2014 FTS conference. Although the EBRD had limited significant impact on tariff reform in the railway sector, substantial, positive tariff reform has taken place during the evaluation period and the blockages related to the implementation of some key reforms (e.g., traction liberalisation; introduction of RAB tariffs) rests elsewhere rather than with FTS. The forgoing observations suggest that it was not necessary for the EBRD to devote significant resources to undertaking policy dialogue with FTS to promote rail tariff reform. Thus, the evaluation team assigned a *not applicable* rating to this dimension of policy dialogue.

Annex 9: Addressing corruption

This evaluation did not examine the details of the project integrity investigations nor was it designed to assess the overall soundness of the EBRD's integrity policies and procedures. Those issues are beyond the scope of the evaluation. What the evaluation did do was to assess how integrity issues affected the choices made, or not made, and the possible effect of integrity issues on the results achieved in the Russian railway sector.

The EBRD's engagement with the private and public sector clients, as well as with regulators and policy makers, provides an opportunity to help the country to combat corruption, enhance ethical standards in business and introduce international standards of corporate governance. These issues are important for strengthening positions of Russian companies in domestic and international markets.

The EBRD has comprehensive and strict policies and procedures related to ensuring that its business in all countries of operations complies with international ethical standards and practices of fair business, transparency and integrity. The EBRD invests a great deal of effort in undertaking integrity due diligence analysis, checks of potential clients and ensuring that clients comply with the established standards and criteria, regardless the business climate and local conditions in the country that might be adverse to compliance. Recognising the global nature of its business practices and operations the EBRD is strengthening its collaborative links with other multi-lateral development banks for better co-ordinated and stronger anti-corruption measures and policies aimed at enhancing integrity standards. There has been substantial progress in setting unified rules and standards for preventing, detecting and dealing with the corrupt and prohibited practices among multi-lateral development banks. Mutual enforcement and recognition of the procedures and sanctions, including cross-debarment, are used by the EBRD in its operations.

Many countries in the region, including Russia, face significant challenges related to the systemic and persistent corruption affecting all spheres of economy and layers of the government. Among the G20 countries, Russia is the most corrupt country according to Transparency International. In 2014 the Corruption Perception Index placed Russia 136th among 175 countries. The EBRD's own analysis found that the majority of Russian businesses believe that corruption is one of three major constraints for growth and development, along with the low accessibility to finance and skilled staff.[81]

There were several cycles in the reform of anti-corruption and integrity policies in Russia that were correlated with the political cycle and electoral promises. In the 1990s and at the beginning of 2000s Russia established the basic institutions necessary for preventing, detecting and counteracting corruption at different tiers and sectors. It joined international organisations and global fora such as the Financial Action Task Force (FATF), the Council of Europe's Group of States Against Corruption (GRECO) group, OECD's Anti-bribery Convention and others.[82] In 2002 the government created Russian Financial Monitoring Service (Rosfinmonitoring) that became Russia's leading agency for preventing and counteracting illegal financial activities and money laundering. Most anti-corruption policy changes in Russia are in line with the recommendations of international organisations and fora that are responsible for building global architecture in this sphere (e.g. FATF, GRECO, OECD). The EBRD's presence in all of those institutions, either as an (associate) member or an observer, contributes to indirect dialogue and ensures consistency of messages and actions by the EBRD and Russian authorities.

Russia made progress in the last 2-6 years in deregulation and improving the business climate. In 2011 Russia started the active phase of separating private business interests from public office functions, tightening legal and regulatory barriers against illicit financial activities and money laundering and "deoffshorisation" in public sector companies. This drive was stimulated by Russia's commitments as a member of GRECO and OECD's Anti-Bribery Convention. Since then Russia significantly improved its relative position in the Doing Business ranking and in 2015 reached 62th position compared to 120th in 2012, which is in line with the targets of the government's 100-step plan that stipulates a range of reforms in the areas of tax administration, registration, permit and license issue and others. Despite many positive policy changes and institutional reforms corruption and integrity issues remain issues when doing business in Russia.

The issue of use of third party jurisdictions and the problem of defining ultimate beneficiary of a specific project or client are among the most common integrity issues, which the EBRD faces while implementing railway projects in Russia. It is also one of the greatest challenges faced by Russian authorities, whose most recent policy initiatives are aimed at bringing back Russian companies, including those in public ownership, to Russian jurisdiction.

A third of the Russian railway projects examined (7 out of 21) used offshore investment vehicles. Those included three major clients – Globaltrans, Brunswick Rail and RZD for international bonds. The scale of use of offshore vehicles in Russian investment projects is significant. Russian authorities initially tolerated this practice, especially in the years of dynamic economic growth and substantial inflows of foreign investments. However, in the times of crisis the challenge became more apparent, first in 2008-2010 and then in 2014. During those periods Russia faced a wave of disinvestment caused by the domestic macroeconomic situation and by a range of international sanctions imposed on Russia, some of its officials, and businessmen because of the geopolitical tensions resulting from the events in Ukraine. Judging by the geography of the flow of foreign investments to Russia and the scale of use of third country jurisdictions to succeed in anchoring Russian companies, including those in state ownership, to Russian domiciliation the government will have to implement systemic changes across wide range of policies.

The EBRD has specific set of policies with regard to this issue, including *Domiciliation of the EBRD's clients* approved in December 2013. That policy explains the EBRD's approach to interpreting sound banking principles and the principle of know your customer, which are fundamental issues in the Agreement Establishing the Bank. The approach is compliant with the international architecture created over the years, represented by institutions such as OECD, FATF and GRECO and frameworks such as the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum).[83]

Global Forum ratings are used for identifying noncompliant domiciles where projects should avoid operating or for which a heightened degree of integrity checks should be employed while preparing the project for submission to the Board and during monitoring its execution. Domiciliation policy also provides for suspending its requirements for a limited period of time in jurisdictions that failed to comply with Global Forum standards but are committed to amending their policies and procedures so that compliance is achieved in the next review. The most recent Global Forum ratings show that Cyprus, one of the most popular offshore jurisdictions used in the Russian railway portfolio, was not compliant with the Forum's standards.[84] Other popular jurisdictions such as Luxembourg and British Virgin Islands were also noncompliant jurisdictions. Suspension clauses are used for operations in these countries as they demonstrated commitment to remedying their policy and regulation shortcomings and maintain continuous dialogue on the matter. The Global Forum classifies Russia as a largely compliant jurisdiction.

Due diligence and constant integrity monitoring of Russian railway operations, including procurement, did not reveal any major incidents of corruption and graft. Most integrity issues were related to domiciliation issue and were duly reflected in the Board documentation. The use of offshore jurisdictions is a "tax efficient'" strategy. However, Russian companies chose foreign domiciliation for various purposes, including simplified administration, clear law enforcement, access to financial resources, etc. Given Russia's loss of fiscal revenue when offshore jurisdictions are used, in previous evaluations EvD questioned the benefit of the EBRD supporting companies that pay little or no tax in Russia in terms of the broader achievement of transition impact in the Russian railway sector.

The screening of the entire Russian railway sector portfolio and four case studies, as well as the interviews with the bankers and experts at the EBRD led the evaluation team to conclude that the integrity and anti-corruption policies were implemented at a high professional level in Russian railway operations. That contributed to maintaining the EBRD's business reputation among the investors, financiers and clients, as well as with government counterparts and the general public. At the project level there is no direct link with Russia's anti-corruption and integrity policy/regulatory changes. The changes are acknowledged in documents, such as country strategies, where the changes are assessed from the perspective of the EBRD's business engagement in Russia in general, characterising the business climate and the political will for reform. Specific analysis is not available at the sector level and project monitoring reports do not contain much detailed information that would link operational activities to legal or regulatory changes.

Board documents rarely included substantial information on integrity issues and related comments were usually limited to assuring that all procedures were performed according to the EBRD's standards and no problems were identified. The use of third country jurisdictions, analysis of ultimate beneficiaries and an examination of the involvement of politically exposed persons were the three core issues that emerged from integrity checks. Past experience suggests some lessons. Some recommend avoiding the use of third country jurisdictions in certain cases, especially when improvement of the client's corporate governance is one of the key transition objectives of the involvement in the transaction. It would be a positive step forward if such lessons and results of complex integrity investigations were clearly integrated into future country strategies. Beyond some general points about the integrity and anti-corruption efforts, that document might benefit from the inclusion of specific feedback from the EBRD's in-country experience. Such information would be helpful for designing future operations and for planning the scope and scale of policy dialogue for advancing certain policy reforms and institutional changes. This suggestion is in line with on-going changes for the country strategies that are to become more result-oriented, better structured and more specific in areas that are needed to enhance good governance and improve the business climate in a given country.

In the current political and economic climate, when the Board's decision to suspend all new operations in Russia is still active, and the scale of international sanctions against Russia is vast, the EBRD faces new challenges when managing the existing Russian railway portfolio and maintaining policy dialogue with senior government stakeholders. Some sanctions affect people who are directly involved in the strategic level management of Russian railway sector like Vladimir Yakunin, the RZD President.[85] Further intensification of the "deoffshorisation" policy with the simultaneous reduction of available financial resources from domestic or international lenders and closure of international financial markets for long-term loans, might have unexpected effects on clients that use offshore domiciliation.

The EBRD has worked, and is currently working, with a wide range of private and public companies in the Russian railway sector. The approach in the area of anti-corruption and integrity could be characterised as a "by example" or a demonstration effect. Through its rigorous procedures and standards the EBRD helps Russian customers to enhance their corporate governance and transparency, helps them to comply with international standards in the spheres of prevention of conflict of interests, illegal financial practices, money laundering and so forth. The EBRD's approach to anti-corruption was successful as the evidence indicates that corruption did not infect the Russian railway portfolio.

Annex 10: Transition impact of the railway reform programme

Contributions to the structure and extent of markets	
1 Greater competition in the sector Overall Transition Impact: *Good* Realised Transition Impact: *Good* Transition Impact Potential: *Excellent* Risk to Potential Transition Impact: *Medium*	Prior to the reforms, there was no effective competition in the railway sector. Policy, regulatory, and tariff reforms fostered competition in the freight wagon operations -- about 1,800 private wagon operators, including 20 or so with fleets of more than 5,000 wagons. The private companies compete among themselves and with RZD subsidiaries. More reforms are needed to develop private carriers. There is competition in rolling stock manufacturing and repair and other ancillary services but not for passenger operations (except from other transport modes). Safeguards are needed so that RZD does not abuse its infrastructure monopoly to favour its subsidiaries.
2 Expansion of competitive market interactions Overall Transition Impact: *Good* Realised Transition Impact: *Good* Transition Impact Potential: *Excellent* Risk to Potential Transition Impact: *Medium*	The reforms have expanded competitive market interactions both up-stream and down-stream of freight and passenger operations. Freight shippers now select from a large number of companies, based on cost, service quality, and timeliness and reliability of delivery. While competition in the freight wagon sector improved the quality and reliability of services, it did not reduce costs to the shippers. Companies manufacturing and repairing locomotives and rolling stock and providing other ancillary services compete for contracts. RZD has introduced competitive procurement. There is little competition within the rail sector for passenger services. While the private sector provides some premium services, most passengers have little choice if they travel by rail.
Contributions to the institutions and policies that support markets	
3 More widespread private ownership: Overall Transition Impact: *Good* Realised Transition Impact: *Good* Transition Impact Potential: *Excellent* Risk to Potential Transition Impact: *Low*	There is now private ownership in the railway sector. There are many private companies, some with partial international ownership, in the freight wagon sector. RZD has sold all or part of its ownership of many subsidiaries to private investors, including some major freight subsidiaries. There is foreign direct investment from leading international companies in private companies manufacturing and maintaining locomotives and rolling stock and equipment and products related to railway infrastructure. There is limited private ownership of passenger services and RZD remains 100 per cent state-owned. Going forward RZD plans to further divest shares in its subsidiaries and there are plans for an RZD IPO.
4 Institutions, laws and policies that promote market functioning and efficiency Overall Transition Impact: *Excellent* Realised Transition Impact: *Excellent* Transition Impact Potential: *Excellent* Risk to Potential Transition Impact: *Low*	Laws and regulations have been adopted to separate policy/regulatory functions and commercial/business functions, promote railway reform and open the sector to private investment and competition. Tariff reforms have created opportunities for the private sector to enter the freight wagon market and recently locomotive ownership. RZD has been restructured, its business lines set up as subsidiaries and its financial transparency improved. The result was a better system for holding management accountable for the delivery of results and an institutional structure that facilitated privatisation of some subsidiaries. Despite the substantial progress, further tariff reforms are needed, enshrining a transparent PSO in legislation. The number of times that FAS has sanctioned RZD indicates that steps are required to ensure that RZD does not abuse its position as the monopoly operator of rail infrastructure services.
Contributions to market-based conduct, skills and innovation	
5 Transfer and dispersion of skills: Overall Transition Impact: *Excellent*	International companies in joint ventures, procurement of world best technologies and direct foreign investments have helped to transfer management know how, systems and procedures and new technologies (e.g., more efficient freight wagons; more powerful and energy efficient locomotives; equipment needed for the railway infrastructure). RZD management and staff and its subsidiaries developed new skills

Realised Transition Impact: *Excellent* Transition Impact Potential: *Excellent* Risk to Potential Transition Impact: *Low*	(e.g., commercial management; financial management; accounting and auditing; procurement; knowledge of the domestic and international capital and financial markets).
6 Demonstration of new replicable behaviour and activities: Overall Transition Impact: *Excellent* Realised Transition Impact: *Excellent* Transition Impact Potential: *Excellent* Risk to Potential Transition Impact: *Low*	The railway sector reforms have had demonstration effects. RZD's lines of businesses were separated, set up as subsidiaries, commercialised and, in some cases, privatised or taken to the market. The replication of private sector investment is evident in the freight wagon sector. New technologies have been demonstrated (e.g., freight wagons; locomotives; equipment and components in the railway sector). The reforms have broadened the array of financial instruments, both domestic and international, available to finance the railway sector (e.g., credit ratings for many companies; domestic and international bonds and IPOs; joint ventures; longer term bank loans).
7 Setting standards for corporate governance and business conduct: Overall Transition Impact: *Good* Realised Transition Impact: *Good* Transition Impact Potential: *Excellent* Risk to Potential Transition Impact: *Medium*	Some private companies have introduced international best practice in corporate governance (e.g., clear ownership structure; role and function boards; transparency; codes of corporate governance and accounting). The processes involved in getting credit ratings, listing on international capital markets and conditionalities imposed by EBRD and IFC, as well as progressively more stringent requirements in Russia, contributed to improved financial transparency and corporate governance. While progress has been made, more progress is required in some companies.

Source: EBRD Transition Impact

Annex 11: Evolution of the freight wagon fleet and indicators of rail sector efficiency

	Number of Wagons (000)					Per Cent Ownership of the Fleet			
	MPS/RZD (000)	*RZD Subsidiaries*	*Private[a]*	*Corporatized (Private Plus RZD Subsidiaries)*	*Total Wagons*	*per cent MPS/RZD*	*per cent RZD Subsidiaries*	*per cent Private*	*per cent Corporatized (Private Plus RZD Subsidiaries)*
2000	639.8	0	162.9	162.9	**802.7**	79.7 per cent	0.0 per cent	20.3 per cent	20.3 per cent
2001	639.7	0	161.0	161.0	**800.7**	79.9 per cent	0.0 per cent	20.1 per cent	20.1 per cent
2002	625.2	0	173.6	173.6	**798.8**	78.3 per cent	0.0 per cent	21.7 per cent	21.7 per cent
2003	634.5	0	195.3	195.3	**829.8**	76.5 per cent	0.0 per cent	23.5 per cent	23.5 per cent
2004	624.1	0	222.5	222.5	**846.6**	73.7 per cent	0.0 per cent	26.3 per cent	26.3 per cent
2005	630.7	0	255.4	255.4	**886.1**	71.2 per cent	0.0 per cent	28.8 per cent	28.8 per cent
2006	591.2	27.1	252.3	279.4	**870.6**	67.9 per cent	3.1 per cent	29.0 per cent	32.1 per cent
2007	416.7	206.9	352.8	559.7	**976.4**	42.7 per cent	21.2 per cent	36.1 per cent	57.3 per cent
2008	380.9	236.1	355.5	591.6	**972.5**	39.2 per cent	24.3 per cent	36.6 per cent	60.8 per cent
2009	338.7	237.8	415.4	653.2	**991.9**	34.1 per cent	24.0 per cent	41.9 per cent	65.9 per cent
2010	213.8	305.0	507.6	812.6	**1026.4**	20.8 per cent	29.7 per cent	49.5 per cent	79.2 per cent
2011	96.8	391.2	603.8	995.0	**1091.8**	8.9 per cent	35.8 per cent	55.3 per cent	91.1 per cent
2012	68.5	190.8	899.3	1090.1	**1158.6**	5.9 per cent	16.5 per cent	77.6 per cent	94.1 per cent
2013	54.2	198.7	947.1	1145.8	**1200.0**	4.5 per cent	16.6 per cent	78.9 per cent	95.5 per cent
2014	59.6	193.5	976.1	1169.6	**1229.2**	4.8 per cent	15.7 per cent	79.4 per cent	95.2 per cent
Net Change 2001 - 2014	**-580.1**	**193.5**	**815.1**	**1008.6**	**428.5**				
per cent Change in Wagons Since 2001	**-91 per cent**	**NA**	**506 per cent**	**626 per cent**	**54 per cent**				

Notes: a = Before 2003 private wagons were predominantly wagons owned by various industrial companies (i.e., oil, coal, steel mills). Most of them were privatised during the early stages of Russia's economic reforms.
Sources: (i) 2000-2011: Kommersant Business Guides (All data as of the end of the respective year. The data is only for the working wagon fleet; (ii) 2012-2013: RZD annual reports; (iii) 2014: RZD Data Base, contains data on all registered wagons in Russia.

Selected indicators of changes in the efficiency of the Russian railway sector after reforms were implemented									
	Combined Traffic Units[A] (billion) per Railway Employee[B]	*Gross Annual Railway Expenditures as per cent of GDP[B]*	*Rail Freight Wagon Cycles (days)*	*Average Speed, Including Stops at Intermediate Stations (km/h)*	*Average Speed, Not Including Stops (km/h)*	*Average Weight of Freight Trains (tonnes)*	*Average Delivery Speed of Freight (km/day)*	*per cent Share of Freight Delivered on Time (according to contracts)*	*per cent Empty Tare of Total Freight T KM*
2001									
2002									
2003		4.03 per cent							
2004	1,353,979	3.42 per cent							
2005	1,523,284	3.07 per cent							
2006	1,692,074	2.79 per cent							
2007	1,872,133	2.71 per cent	7.7	40.3	n.a.	3,778	n.a.	n.a.	10 per cent
2008	1,966,115	2.84 per cent	7.6	40.6	n.a.	3,815	n.a.	n.a.	13 per cent
2009	1,874,593	2.81 per cent	7.5	41.6	49.3	3,855	290	90.5 per cent	18 per cent
2010	2,202,541	2.74 per cent	13.4	41.2	49.3	3,867	274	87.2 per cent	20 per cent
2011	2,407,510	2.68 per cent	14.4	37.1	46.5	3,868	247	81.6 per cent	21 per cent
2012	2,529,229	2.51 per cent	15.5	36.0	45.2	3,891	219	72.5 per cent	20 per cent
2013	2,586,130	2.72 per cent	16.9	36.8	45.6	3,911	222	77.5 per cent	22 per cent
2014	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes: A = Combined traffic units is the sum freight tonne kms and passenger kms.
B = These indicators are based on figures for RZD and its subsidiaries in the numerators because consolidated data for private companies is not available. However, in terms of numbers of employees and gross annual expenditures, the private freight operators are small relative to the RZD Group.

Sources: Federal State Statistical Agency; RZD-web site; business media; RZD-partner publications; other internet sources. RZD Annual Reports and audited financial statements.

Annex 12: RZD's financial performance

RZD's financial performance (billion RUB)				
Year	*Total Revenue*[a]	*Operating Expenses*[b]	*Net Income (Loss)*	*Total Assets*[c]
2014	1,796	1,747	-99	3,805
2013	1,774	1,999	-198	3,522
2012	1,540	1,434	37	3,493
2011	1,471	1,376	170	3,138
2010	1,356	1,138	208	2,760
2009	1,126	1,013	121	2,558
2008	1,203	1089	76	2,601
2007	1,016	822	145	1,996
2006	878	680	140	1,603
2005	749	615	91	1,442
2004	652	569	77	1,063
2003	571	516	37	979
2002	510	497	3	1,003

Notes: A= In 2014 freight, infrastructure access and logistics revenues accounted for 77 per cent of total revenue, passenger revenue for 11 per cent and other revenue for 12 per cent. In 2002 the corresponding proportions were 78 per cent, 10 per cent and 12 per cent respectively.
B = In 2014 operating expenses were 97 per cent of total revenue compared to 98 per cent in 2002.
C = In 2014 non-current assets accounted for 87 per cent of total assets compared to 89 per cent in 2002.

Source: RZD's Audited Financial Statements

Annex 13: The EBRD's investment profitability for Russian railway operations

Investment performance of the Russian railway debt portfolio, 1996 to 2014 (euros)

	Russian Railway Debt Portfolio	*Russian Debt Portfolio*	*Corporate Debt Portfolio*
Net Operating Income	107,170,961	1,715,488,777	6,015,706,237
Net Project Costs	-6,284,869	-221,939,692	-1,002,362,002
Provisions	-7,920,360	-232,781,449	-1,286,368,393
Profit/Loss	92,965,732	1,260,767,636	3,726,975,842
Profit/Loss as a per cent of Net Operating Income	86.7 per cent	73.5 per cent	62.0 per cent
Net Project Costs as a per cent of Net Operating Income	-5.9 per cent	-12.9 per cent	-16.7 per cent
Provisions as a per cent of Net Operating Income	-8.5 per cent	-18.5 per cent	-34.5 per cent
Total Debt Transactions	1,378,910,985	19,391,422,964	79,796,798,730
Profit/Loss as a per cent of Total Debt Transactions	6.7 per cent	6.5 per cent	4.7 per cent

Source: Derived from the EBRD's financial systems by MRO

Return on equity investments in Russian railway projects (euro million)[A]

Russian Railway Equity Portfolio	*2011*	*2012*	*2013*	*2014*
Current Costs	242.3	164.9	164.9	164.9
Total Proceeds[B]	2.5	61.9	66.4	70.2
Fair Market Value	137.2	172.6	133.8	58.8
Internal Rate of Return	-13.9 per cent	-0.7 per cent	-3.5 per cent	-10.5 per cent
Profit/Loss	-47.8	99.0	-40.5	-51.4
Russian Equity Portfolio	*2011*	*2012*	*2013*	*2014*
Current Costs	1,986	2,185	2,114	1,825
Total Proceeds	169.8	65.4	200.9	350.1
Fair Market Value	2,025	2,339	2,120	1,150
Internal Rate of Return	2.2 per cent	2.8 per cent	1.9 per cent	-5.5 per cent
Profit/Loss	-30.3	274.6	200.6	-407.1
Corporate Equity Portfolio	*2011*	*2012*	*2013*	*2014*
Current Costs	4,866	5,164	4,956	4,676
Total Proceeds	974.8	748.8	915.8	1,216
Fair Market Value	5,130	5,512	5,285	4,256
Internal Rate of Return	5.1 per cent	4.3 per cent	4.4 per cent	1.5 per cent
Profit/Loss	-405.8	289.0	454.9	-309.1

Notes: A = All values are in Euro and based on the end of November reconciliation.
B = Total Proceeds includes EBRD's cumulative dividends and proceeds from exit.
C = Fair market value reflects the quoted stock price for equity investments held in traded stock.
Source: Derived from EBRD's financial systems by MRO

Annex 14: Assessing Bank handling

Handling during project identification and processing

The assessment of the project approval stage covered project identification, preparation, design and structuring. All members of the MRO transport team can communicate in Russian, which simplified the business as they can liaise quickly and easily with government and non-government counterparts during policy dialogue and clients. Because of the Moscow presence the team could maintain close contact with the market and identify new project opportunities.

The EBRD has well-established system for project selection and processing that is designed to ensure that its reputation is maintained on a high professional level. The selection of railway projects was consistent with the country strategies and transport strategies and other policies (e.g., for energy efficiency; environmental and social sustainability; foreign domiciliation; procurement). The preparation of railway projects involved developing guarantees, collateral and instruments that for the most part successfully safeguarded the EBRD against excessive financial, institutional and integrity risks.

The generally good performance of Russian railway projects indicates that project selection and design were sound and that quality at entry was good. Project designs were robust and were implemented as planned with few significant changes in scope during implementation. Although three clients experienced serious financial difficulties and their projects were rated as less than fully satisfactory, those problems were caused by the 1999 Russian Rouble crises and the 2008/2009 global financial crises rather than by project design weaknesses. Project processing was undertaken in a timely manner and sometimes under tight deadlines that were necessary to respond to clients' needs. In the 24-project Russian railway portfolio problems related to project selection and design were found for only two relatively early projects. In one case there were issues related to the rational for the EBRD's involvement and exit mechanism to reduce financial risks. In the other case the issues related to the company's compliance with some Russian legal requirements and the need for greater security to ensure the repayment of the loan. Based on the aggregated of project-by-project ratings of handling, weighted by the amount of financing involved in the transaction, the evaluation team rated the handling during project processing as *fully satisfactory* because the staff working on the Russian railway portfolio met the operational standards and there were no significant shortcomings.

Handling during project implementation and monitoring

The assessment of project implementation and monitoring examined issues related to the role and function of MRO and Headquarters staff, monitoring and reporting and client relations. Handling during project implementation was generally good, as was indicated by the relatively smooth project implementation. There were few serious delays in project implementation, most procurement contracts were awarded in a timely manner and all followed the procurement policy. Projects were implemented as planned and there were few major changes in scope. Monitoring ensured that projects were implemented in a manner that was consistent with the mandated policies and procedures.

The required project monitoring reports, TIMS reports and OPAs/expanded monitoring reports were prepared and could be located by the evaluation team. Project monitoring reports summarised project status, compliance with loans covenants or waivers, disbursements and repayments, the client's financial performance and progress toward achieving transition benchmarks. Clients submitted the required reports on time and they were of acceptable quality. The evaluation team only identified one major problem in the area of project monitoring. The EBRD's Russian railway sector reform programme included in the RZD 2009 integrated approach covered some strategically important improvements in the policy/regulatory environment (i.e., issues related to developing a PSO, liberalising traction, divesting RZD subsidiaries and establishing a railway regulator). Within a year of approval, the RZD 2009 loan was pre-paid and replaced by a bond under RZD Confidential 2010. There was no bond framework agreement for RZD Confidential 2010 and the EBRD sold its bond holding relatively soon after the issuance. Consequently the EBRD had no legal mechanism to support the policy reforms under the RZD 2009 integrated approach after the loan was pre-paid. That issue could have been addressed by including necessary covenants in the RZD Energy Efficiency 2010 legal agreement but the EBRD did not do so.

During interviews client companies confirmed the positive assessment of portfolio handling and provided overwhelmingly positive feedback on client management. They held the staff in high professional regard. There were no major complaints about client relations and clients did not view reporting requirements as being overly onerous. Some clients particularly appreciated the EBRD's efforts during project implementation to harmonise its financial reporting requirements and financial covenants with those of commercial banks involved in B loan syndications to reduce the reporting burden. Staff maintained frequent contact with their clients and were available at short notice when clients wanted to discuss specific issues. Increased delegation of responsibilities and staff to MRO had a positive impact on the quality of services provided to clients.

Because of the positive feedback from all clients interviewed by the evaluation team on client relations, a project-by-project analysis of handling for 15 projects and the fact the only two serious weakness was found, the evaluation team rated handling during project implementation and monitoring as *fully satisfactory*.

Handling environmental and social issues

The environmental and social guidelines were followed for all Russian railway projects and overseen by the Environment and Sustainability Department. Both Environmental and Social Impact Assessments and Environment and Social Action Plans are mandatory for railway projects. Environmental and social issues were monitored during implementation and reported on in OPAs/OPAVs.

Of the 24 Russian railway projects, 13 were classified as Environmental Category B (including all projects approved in 2009 or later), 7 as Category C, 1 as Category A and 3 as FI. Typically the Board document stated that the environmental and social due diligence included discussions with the client's management and a review of an environmental and social questionnaire. The environmental and social due diligence found that increasing a company's rolling stock fleet with wagons that met EU standards would not result in significant adverse environmental or social impacts. The companies' environmental, health and safety, and quality management systems were reviewed. Some were ISO14001, OHSAS18001 and ISO9001 certified and in other cases the covenanted Environment and Social Action Plans required the company to take steps to improve their environmental and social policies and practices to be in compliance with the relevant Performance Requirements. During project processing, agreements were reached on a reporting template that served as a basis, together with missions, for environmental and social monitoring to assess progress in implementing the Environment and Social Action Plans. The reports were submitted as required and no major environmental or social problems were reported during implementation.

While labour retrenchment was not a major issue for private railway companies, which were growing, and RZD subsidiaries, it was a major issue for RZD. Although RZD had reduced its workforce from 2.2 million in the 1990s, it remained the largest commercial employer in Russia, employing 903,000 people in 2013. RZD used a variety of instruments to reduce staffing including early retirement, attrition by not filling some vacancies, providing redundancy allowances and paying for employees living in remote railway towns where stations were closed to move to more populated regions so that they had a better opportunity to find new jobs. Labour retrenchment was not covered in the extensive annexes in Board documents that discussed the progress implementing the railway reform programme. However, the Environment and Social Action Plan for RZD 2009, the first transaction directly with RZD after the reforms began to be implemented, covered the issue of developing and implementing retrenchment plans for significant collective dismissals. However, labour retrenchment was not covered in the Environment and Social Action Plan prepared for RZD Energy Efficiency (2010).

Because the evaluation team concluded that operational standards related to handling environmental and social issues were met, and there were no significant shortcomings either during appraisal or project supervision, a *fully satisfactory* rating was assigned for this criteria.

Annex 15: Management Comments

EvD Special Study: Russian Railways Sector Evaluation

Management Comments

Summary

Management welcomes the study and values the level of detail and the thoroughness of approach of the study, as well as the overall positive assessment of the Bank's engagement in the sector and acknowledgement of its successes in supporting the reform process. Management believes that the EvD report represents a fair assessment of the Bank's activities in the Russian Railway sector, and welcomes the study's conclusions that the EBRD's projects delivered good (bordering on outstanding) results across various dimensions of the Bank's mandate. In the twenty years of its involvement in the Russian railway sector. The EBRD has indeed achieved very important transition impact milestones, mobilised significant resources from the private sector and efficiently handled its portfolio in the sector.

Management has provided extensive comments to the draft study some of which have been reflected by EvD in this final version of the study.

Study recommendations

Management appreciates the study's clear evidence that the combined effects of the projects, technical assistance and policy dialogue activities contributed to positive transition outcomes at the sector level, specifically in the sector reform programme and commercialisation of RZD, despite the EBRD's financing accounting for a small portion of the annual capital investment in the sector. Management also believes that it has continuously worked to ensure that the combination of EBRD investments, policy dialogue and technical assistance be appropriate and reflective of both the opportunities, on the one hand, and challenges and operational/resource constraints at times, on the other.

This view and belief is reflected in the Management comments to the study recommendations below:

Recommendation 1

Find innovative ways to undertake sector level policy dialogue in areas that will remove barriers to private sector investment. That will involve: (i) building close relationships with railway policy and regulatory agencies, State and regional organisations that champion reform, rail industry associations and RZD; (ii) advocating specific policy changes that are necessary to promote reform in the railway sector and open up more opportunities for competition and private sector investment; (iii) assessing country ownership of, and commitment to, the priorities for sector reform and the associated timing and sequencing and identifying high-level champions for necessary policy change; and (iv) developing, a strategy for the policy dialogue, embedded in the country strategy, based on deep diagnostics and political economy considerations, including the policy actors targeted, the policy actions envisaged and the tools to be used to achieve the desired results that draws on a full range of instruments in the EBRD's toolkit like: (a) mobilizing headquarters-based staff with appropriate expertise, including senior Management when needed, to support MRO in undertaking policy dialogue; (b) resourcing the efforts to provide the necessary staff and consultants that have the required world-class expertise; (c) preparing targeted knowledge products; (d) sponsoring/financing conferences on carefully selected topics; and (e) mobilising stand alone, policy oriented TCs in areas where there is strong government ownership.

<u>Management agrees with this recommendation:</u>

Management supports the need for innovative ways to undertake sector level policy dialogue in areas that will remove barriers to private sector investment. This is in line with the enhanced approach to policy reform dialogue recently presented by Management. Indeed, plans for further policy dialogue in the railway sector in Russia will be anchored in the country strategy, which is based on prior country diagnostics of the impediments to private sector development that form a strong analytical basis for setting Bank's strategic priorities in the country. Management would like to stress that country ownership and commitment is crucial for success of policy reform dialogue, the main reason for the apparent limited policy success in the past few years indicated by the study. Management notes that stand- alone TC may supplement policy dialogue effectively in some cases. However, authorities' strong commitment and requests for such support are crucial necessary conditions for any practical opportunity to mobilise stand-alone TC in Russia or elsewhere in other countries of the region. Management believes that policy reform dialogue done hand in hand with transactions significantly enhances Bank's leverage and improves the prospects for sustainable results of policy reform work. Past experience in the sector has shown that through provision of transaction finance, including at the sovereign level, the EBRD gets a meaningful seat at the table to successfully push reforms when there is adequate commitment from the authorities.

Recommendation 2

The EBRD should no longer finance projects for which the transition impact is primarily to increase the proportion of freight wagons owned by the private sector. The Bank must find new niches that deliver incremental transition impacts if it continues to support the railway sector. Further policy reforms would be needed to open up some opportunities for projects involving: (i) private sector investments in traction, passenger services and railway infrastructure, preferably using PPP; (ii) balance sheet restructuring or mergers and acquisitions in the rail freight wagon industry to promote orderly market consolidation; (iv) full or partial privatisation of RZD subsidiaries; (v) a RZD IPO; and (vi) new technologies that improve operational and/or energy efficiency.

<u>Management partially agrees with this recommendation:</u>

Management appreciates changes that have been made by EvD to the draft study to reflect in the recommendation the importance of projects involving: (i) –(vi) as suggested by Management. Management believes however, that the categorical nature of the first part of the recommendation stating "The EBRD should no longer finance projects for which the transition impact is primarily to increase the proportion of freight wagons owned by the private sector" is not warranted. Although there is currently oversupply of several types of freight wagons, if and when circumstances change, for example if the government policy on wagons/length in service changes, there may be transition scope related to EBRD support (e.g. related to manufacturing, purchase, lease, R&M, modernisation, operating of specific types of wagons, including the new generation of railcars). This part of the recommendation is also somewhat inconsistent with the rest of the recommendation, as for instance balance sheet restructuring or mergers and acquisitions in the rail freight wagon industry to promote orderly market consolidation, or supporting new technologies that improve operational and/or energy efficiency, could lead in an increase in the proportion of freight wagons owned by the private sector.

Recommendation 3

During the processing of future railway projects the EBRD needs to ensure that they are sufficiently robust to withstand major, unanticipated macroeconomic shocks and currency depreciations that cannot be forecast with certainty. That will involve supplementing the comprehensive due diligence process that is in place with: (i) analysing the impact that past macroeconomic crises have had on Russian railway projects to develop the parameters for more robust stress testing during the project processing phase for unexpected macroeconomic downturns and major currency devaluations; (ii) seriously discussing with clients currency mismatch risks and the EBRD's options of providing local currency denominated financial support; (iii) more cautiously assessing the potential risks related to equity investments, including those associated with adverse macroeconomic conditions and reflect those risks in its equity valuation and pricing estimates; and (iv) searching for equity exit mechanisms that provide greater protection to the EBRD.

<u>Management agrees with this recommendation:</u>

Management supports the notion that Banking and Risk Management need to remain vigilant in order to minimise the EBRD's losses and maximise returns, especially for equity projects where returns are dependent not only on the performance of an individual asset but also sector dynamics and the overall state of the market. Management notes that the Bank has already a sound method for risk analysis as well as equity exits in place, and is working to improve the robustness of its processes as a result of Process Review for Equity. Also, after economic crises, the Risk Department continuously reviews the parameters for stress testing based on actual experience during economic crises. Management would like to caution, however, that the investment process is inherently risky and events are unpredictable and in some cases the EBRD have to wait for transition commitments to be achieved. Banking and Risk Management are working to establish a more commercially oriented approach both in terms of entry (be more focussed) and exit (concentrate mainly on returns once transition objectives are largely met).

Recommendation 4

Improvements are needed in defining non-financial additionality and transition benchmarks and sharpening the definitions and indicators to determine whether or not the desired results are realised and are related to the EBRD's participation in the transaction, which will involve: (i) streamlining the description, monitoring and reporting on the achievement of non-financial additionality and transition objectives and indicators; (ii) clarifying what is meant by the EBRD's attributes under non-financial additionality; (iii) determining how claimed demonstration impacts can be independently verified; and (iv) limiting claims of sectoral impact at the project level and assessing the combined impact of a portfolio of similar projects in periodic sectoral assessments or evaluations, with a focus on contribution rather than attribution.

Management agrees with this recommendation: Management notes that, as a follow up to improving project-level results framework and streamlined transition impact project assessment methodology (currently underway), the Bank will also work on harmonising the types of transition benchmarks and look into the question of how to assess higher-level impacts at the portfolio level. Management agrees that these higher-level results are most effectively measured at portfolio level, rather than on a standalone project basis. Management would appreciate EvD's guidance on how the attributes/indicators under non-financial additionality can be streamlined. Furthermore, Management has acknowledged the difficulty in measuring and monitoring demonstration effect and is very keen to receive any support from EvD both in terms of how (methodology) and who would independently verify demonstration effects of Bank's activities.

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[1] Overall performance was rated on a 6-point scale -- outstanding; good; acceptable; below standard; poor; very poor. Each element was rated on a 4-point scale -- excellent; fully satisfactory; partly unsatisfactory; unsatisfactory.
[2] Working Paper No. 1: Railway Sector Reform Programme; Working Paper No. 2: Overview of EBRD's Russian Railway Portfolio; Working Paper No. 3: Relevance, Transition Impact, Financial Performance, Investment Performance, Additionality and Strategic Policy Dialogue; Working Paper No. 4: Integrity and Anti-corruption Issues in the Context of Russian Railway Sector Operations; Working Paper No. 5: Bank Handling.
[3] Board documents for all Russian railway projects; TIMS reports; project performance monitoring reports; Operation Performance Assessments (OPAs)/Operation Performance Assessment Validations (OPAVs) and their predecessors, country strategy papers; transport strategy papers; capital requirements reviews; selected evaluation reports.
[4] Based on the principles set out in EvD's January 2015 Guidance Note 6 on evaluation performance rating.
[5] See Working Paper No. 1: Railway Sector Reform Programme
[6] Two other groups also represent freight operators: (i) the Association of Carriers and Operators of Rolling Stock of Railway Transport (www.ascop.ru) whose members are located in the St. Petersburg area; and (ii) a non-commercial partnership of smaller operators of railway rolling stock operators located in Stary Oskol (www.npogdps.com).
[7] Transport Operations Policy Background Paper, 1992; Transport Policy, 1997; Transport Operations Policy 2005-2008; and Transport Sector Strategy, 2013.
[8] During the 1990s, IMF was encouraging the government to reform the railway sector.

[9] Source: EBRD. Russian Federation Railways Modernisation Project. Annex 1. April 1996.
[10] Source: EBRD. Discussion Paper on Proposed Railway Reforms in the Russian Federation. January 2001.
The private sector could invest in: (i) railway supply industries (e.g., equipment manufacturing; locomotive and wagon repair; passenger coach refurbishment; non-core assets); (ii) leasing and renting rolling stock; (iii) specialist technologies (e.g., container terminals; telecommunications networks); and (iv) train operations with equal rail infrastructure access rights for new private companies.
[11] EvD. Operation Performance Evaluation Review. Railways Modernisation Project. January 2005.
[12] EvD. Operation Performance Evaluation Review. Railways Modernization Project. January 2005
[13] When discussing additionality and related conditionalities, the 2009 Board document states that if the funds were provided from other sources, RZD would not have agreed to: (i) unbundle freight, passenger, auxiliary, non-core services and 'accounting separation' of RZD infrastructure and operations; (ii) restructure all remaining RZD freight operations into separate companies and liberalising traction services; (iii) implement the PSO for passenger services; (iv) establish an effective independent railway regulator; (v) implement an environment and social action plan; and (vi) develop and implement a Sustainable Energy Strategy. These actions were to be taken by certain target dates during project implementation and formed part of EBRD's reform objectives for the Russian railway sector.
[14] The objectives of the RZD integrated approach effectively fell away when the loan was prepaid.
[15] RZD Energy Efficiency 2010 did, however, provide support to help RZD develop and implement a Sustainable Energy Strategy, which was part of the integrated approach.
[16] To supplement information available for the evaluation, MRO searched its electronic archives to identify ways that the Bank supported sector level reforms from 2009 onward.
[17] The Bank's experience in Romania and Serbia shows that reforms like the introduction of PSO and promoting financial viability are best addressed through sovereign investments, where the Bank's engagement is directly with the government.
[18] Depending on the issue, contacts might be required with Duma committees, the deputy prime minister responsible for the transport sector, the ministries of finance, economy or transport and/or FAS and FTS in addition to RZD and railway associations.
[19]10 Jan 2008: *EBRD buys minority stake Russian TransContainer,*
http://www.infrasite.net/news/news_articles.php?ID_nieuwsberichten=9090
S&P has stated "Unlike many other Russian issuers, TransContainer started strengthening its governance structures several years ahead of a public placement. This allowed the company to go public with a well-tuned board process already in place, and the parent company accustomed to TransContainer's special status within the group."
[20] http://www.trcont.ru/en/investor-relations/shares/share-ownership/
[21] 1992, 1993, 1994, 1996, 1997, 2000, 2002, 2004, 2006, 2009 and 2012
[22] Country exposure limits meant that the proportion of EBRD's operations in Russia was not expected to increase as a share of the total portfolio during the latter part of the evaluation period.
[23] Bonds for RZD Confidential (2010) and Brunswick Rail (2012)
[24] Prior to 2006, country strategies treated energy efficiency as something that would largely be pursued in the energy sector. CRR3 and CRR4 made improving energy efficiency in all sectors a corporate objective.
[25] The Russian G8 presidency was expected to make energy its theme.
[26] Railways and inland waterways are the most energy efficient and least polluting transport modes, both for passenger and freight.
[27] Cotton Way website: http://www.cotton-way.ru/en/news/rossijskij-fond-pryamyix-investiczij-i-evropejskij-bank-rekonstrukczii-i-razvitiya-investiruyut-v-kompaniyu-cotton-way
[28] Project Summary Document for Cotton Way:
http://www.ebrd.com/work-with-us/projects/psd/cotton-way.html
[29] Ibid.
[30] Russia's ranking in Transparency International's Corruption Perception Index shifted from 87th out of 133 in 2003 to 136th out of 175 in 2014, which considering changes in the overall sample of countries illustrates static tendencies with the propensity for deterioration. Russia, however, scored better in the Doing Business Rankings at 62nd among 189 economies in the 2015 Doing Business report.
See for example evaluation reports from GRECO and OECD that assess Russia's compliance with its obligations as a member.
[31] See EvD (2011) Special Study Transport Operations Policy Evaluation
[32] The resulting analysis was published. See Harvard Studies in International Development. Moving to Market: Restructuring Transport in the Former Soviet Union. By John S. Strong and John Meyer with Clell G. Harral and Graham Smith. The 1992 TCs financed four studies of road, rail, air and water transport in Russia, Kazakhstan and Belarus. The book combined the resulting analysis and provided a comprehensive assessment of the transition of the transport sector from a centrally planned to a market economy and assessed key policy issues, restructuring needs and required organisational changes.
Other pipeline projects for which project preparation and/or advisory services TCs were provided in the 1990s or early 2000s did not materialize. During that period, reform implementation had made limited progress and an enabling framework for private sector investment had not been created. The only viable option at that time for operations in the Russian railway sector was to support MPS.
[33] Source: EvD. Synthesis Findings and insights from technical cooperation evaluations. 2012
[34] Funds for the TC had been mobilized from TACIS and MPS reiterated its request for the TC after the government decided not to proceed with loan negotiations.
[35] The mandate set out in the first Governors' Resolution establishing the Shareholder Special Fund required splits between ODA/Non ODA (at least 80 per cent ODA) and TC/non-TC (at least two thirds TC).
[36] During the early years the World Bank and EBRD were jointly involved in identifying projects and the World Bank co-financed many of EBRD's sovereign operations in Russia. By the mid 2000s World Bank operations shifted from high levels of lending to providing knowledge products.
[37] Only 4 TCs were financed in 2009 or later, two from bilateral sources, one by the Global Environment Facility and one by the Shareholders Special Fund.
[38] EBRD's commitment to maximising the use of its capital resources is reinforced by the single private sector project limit and the fact that EBRD normally finances only up to 35 per cent of total project costs.
[39] These figures understate the total financing as detailed data was missing in EBRD's systems for seven projects.
[40] The creation of the Moscow Interbank Offer Rate (MosPrime) index in April 2005 improved EBRD's ability to provide rouble funding.
[41] The 1998/1999 Russian rouble crises; the 2008/2009 global financial crises; the on-going economic difficulties sparked by the geopolitical events in Ukraine and the sharp fall in global oil prices.
[42] EvD found that while EBRD had attempted to put more emphasis on lending in local currency during the CRR3 period, cautions in the Operational Guidelines on Foreign Exchange on

exposure in lending operations did not constrain the high level of foreign currency lending between 2005 and 2010. However, experience varied across countries (in Russia rouble lending increased). EvD concluded that sometimes efforts to lend in local currency were not successful because: (i) the promotion of local currency schemes was limited; (ii) there was little interest at the project level; and (iii) the foreign/local interest rate differentials sometimes gave wrong incentives to clients.
[43] EvD. The EBRD's experience with policy dialogue in Ukraine. 2014.
In August 2015 Mr. Vladimir Yakunin resigned as RZD President, having held the position for 10 years. The new RZD President is Mr. Oleg Belozerov who was previously the First Deputy Minister of Transport and a member of the RZD Board. According to press reports Mr. Belozerov stated that he would focus on improving the efficiency of the Russian railways, including its socially-oriented activity, the transport of goods and increasing the speed of movement. Press reports stated that the Prime Minister asked Mr. Belozerov to pay close attention to three issues: (i) RZD's budget; (ii) investment; and (ii) passenger services. Given the change in RZD's leadership, the Bank would need to fully understand the views of the new management team in areas related to the unfinished reform agenda.
[44] Article 13(xi) of the Agreement states that "in its investments in individual enterprises, the Bank shall undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the Bank, and the terms and conditions normally obtained by private investors for similar financing." EBRD's pricing policy applies risk-differentiated criteria to non-sovereign borrowers, with margins over LIBOR increasing with the risk rating. That approach underpins the principal of financial additionality and helps attract commercial co-financiers.
[45] See: Euromoney Yearbook's Project Finance Yearbook 2004/2005. The new key to Asian financing today By Robert Bestani, Director General – Private Sector Operations Department, Asian Development Bank.
[46] RZD renewed its locomotive fleet at high rate between 2010 and 2014 at a rate of 700 to 800 locomotives per year.
[47] Demonstrated non-financial additionality could not be rated for projects approved in 2010 or later because more time is required to generate the necessary evidence on which to base a rating.
[48] EvD defines outputs as the products, capital goods and services that result from an operation.
[49] Two expected IPOs materialised and two did not.
[50] Source: EBRD. Transition Report 2013. Page 109
[51] The transition indicators range from 1 to 4+, with 1 representing little or no change relative to a rigid centrally planned economy and 4+ representing the standards of an industrialised market economy.
[52] Only other sector in Russia, the capital markets sector, received a 4- rating.
[53] RZD freight wagons are not used for commercial purposes. Rather they are used for military transportation services or for in-house use (transportation of ballast for track maintenance or for spare parts).
[54] With about 210,000 and 170,000 wagons respectively.
[55] In 2000 about 30 per cent of freight cars, 40 per cent of passenger cars and nearly half the locomotives were of such poor quality that immediate replacement was needed.
[56] According to RZD's draft 2030 strategy RZD needs Roubles 460 billion (US$8 billion) in State subsidies through 2020 to cover expected losses and finance planned investments. State subsidies or other solutions are needed to ensure growth in operating revenue to avoid net losses over the next five years that would lead to loan repayment problems and cut backs in investment. In June 2015 the government announced, based on a proposal submitted by the Ministry of Transport, that it would increase RZD's charter capital by Roubles 64.3 billion, a 3 per cent increase, to Roubles 2.03 trillion. The funds allocated in the 2015 budget were to be used to finance high priority infrastructure investments in different regions in the country.
[57] In July 2015 President Putin approved a proposal by the Prime Minister for the Federal Anti-Monopoly Service to absorb FTS.
[58] RZD has not borrowed since 2010, preferring to issue bonds.
[59] EBRD required the inflation linked rouble bond to be linked to MosPrime but RZD could borrow at rates that were lower than MosPrime.
[60] It took marginally longer (40 days) to implement Russian railway projects than the typical Russian transport project but nearly 500 fewer days than the average project in the transport portfolio.
[61] Private railway projects required less time to implement in Russia (an average of 250 days between the first and final disbursement) than for the total portfolio of private railway projects (340 days).
[62] There are some difficulties in using this data to compare public and private projects. For example, sovereign loan negotiations are pre-Board whereas for private projects the loan negotiations take place post-Board.
A similar pattern emerged when the implementation period was measured by the number of days between signing and final disbursement.
[63] The average number of days between Board approval and signing was 37 for Russian railway projects compared to 59 for all railway projects, 57 days for all Russian transport projects and 73 days for EBRD's transport portfolio.
[64] All railway projects, all transport projects, the total Russian portfolio and EBRD's entire portfolio.
[65] Including interest and fee income, net realized gains and net unrealized gains/losses for loans at fair market value.
[66] Including direct project costs and staff project costs net of the corresponding cost recoveries.
[67] The Brunswick Rail bond was one of EBRD's most profitable bond investments.
[68] Portfolio data is more robust than project-by-project ratings because it reflects actual financial data for all debt-financed projects. The project-by-project analysis covered only 11 projects and involved some evaluator judgement.
[69] EBRD continues to hold three major equity investments. Two involve internationally traded IPOs and the third is an investment fund. Given prevailing market conditions it is not surprising that the fair market value for all three results in a substantial loss for EBRD. Although one IPO has periodically traded above the price paid by EBRD, the other IPO has consistently traded well below the price paid by EBRD, even during the years preceding the current difficult market conditions.
[70] Including the procurement office, the Office of the General Counsel and the legal transition team, the Office of the Chief Economist, the Office of the Chief Compliance Officer, Energy Efficiency and Climate Change, the Environment and Sustainability Department and the transport team.
[71] EvD. Special Study Policy Dialogue Evaluation. 2010. Page 1
[72] The technical expertise was, however, good.
[73] EvD's 2014 evaluation of the EBRD's Experience With Policy Dialogue in Ukraine concluded that the Bank needed to accept that policy dialogue not linked specifically to projects (but generally in those areas where it is, or hopes to, provide finance) is an essential tool for fostering transition/reform. Doing so would require a broader and deeper outreach to a variety of policy actors and, when appropriate, being prepared to play a higher profile role as an expert advocate, resourcing the activity and reporting on the results of the effort.
[74] Deputy Prime Minister Arkady Dvorkovich was elected Chairman of RZD's board of directors on 22 June 2015.
[75] EvD. Operation Performance Evaluation Review Railways Modernization Project Russian Federation. January 2005
[76] The loan negotiations for the proposed Second Railway Modernisation Project never took place. Despite repeated requests from EBRD and MPS, the Ministry of Finance and the Ministry of Economy declined to provide the necessary sovereign guarantee because the railway reforms would soon be implemented. After the reforms the government expected

that RZD would be able to borrow without a sovereign guarantee.

Such as: (i) developing a PSO mechanism; (ii) separating policy and regulatory functions from MPS's commercial operations; (iii) financial restructuring of the company and identifying new sources of long term capital; and (iv) encouraging freight wagon leasing. US$1.5 million of TACIS funding was available the TC.

[77] Such contracts would follow the PSO model of funding being provided in return for the suburban passenger company meeting specified performance targets.

[78] Some proposals included in the amended concession law related to step in rights and direct agreements between the grantor and lenders.

[79] 2015 press reports state that Chinese expertise is being used to develop a high speed rail project.

[80] Including a detailed report on the French experience and regulations that was of particular interest to FAS.

FAS sanctioned RZD several times for discriminating against some private operators in terms of track access.

[81] EBRD and World Bank Business Environment and Enterprise Performance Survey (BEEPS V), 2012. Available at http://ebrd-beeps.com/countries/russia/

[82] FATF sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. FATF has developed a series of recommendations that are recognised as the international standard for combating of money laundering and the financing of terrorism and proliferation of weapons of mass destruction. FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In collaboration with other international stakeholders, the FATF works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse (see http://www.fatf-gafi.org).

GRECO's objective is to improve the capacity of its members to fight corruption by monitoring their compliance with the Council of Europe's anti-corruption standards through mutual evaluation and peer pressure. GRECO helps to identify deficiencies in national anti-corruption policies, prompting the necessary legislative, institutional and practical reforms and provides a platform for the sharing of best practice in the prevention and detection of corruption. See http://www.coe.int/t/dghl/monitoring/greco/default_en.asp

[83] The Global Forum addresses the risks to tax compliance posed by tax havens. The Global Forum, with 126 members, is the international body for ensuring the implementation of the internationally agreed standards of transparency and exchange of information in the tax area. The Global Forum monitors its members through peer reviews to assess whether they are fully implementing the transparency and exchange of information standards. See http://www.oecd.org/tax/transparency/

[84] Global Forum of Transparency and Exchange of Information on Tax Purposes. March 2015 ranking for Phase 1 and 2 reviews, available at http://www.oecd.org/tax/transparency/GFratings.pdf

[85] In August 2015 Mr. Vladimir Yakunin resigned as RZD President, having held the position for 10 years.