

Terms of Reference
related to
Organizational restructuring of Republika Srpska Railways –
Organization, Accounting and Asset Management systems

1. BACKGROUND

1. The Dayton Peace Agreement established Bosnia and Herzegovina (BiH) as a state comprising two entities, each with a high degree of autonomy: the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). The district of Brčko was added to the structure in 1999. The railway sector is administered and managed at the State level by the Ministry of Communications and Transport (MoCT), and at the entity level, by separate Ministries of Transport and Communications (MoTC) in each entity.

2. In the Federation of Bosnia and Herzegovina (FBH) the railway is managed by Željeznice Federacije Bosne I Hercegovine (ŽFBH) and in Republika Srpska by Željeznice Republike Srpske (ŽRS). The Entity governments are majority (though not exclusive) owners of the railways located within their territory. They are responsible for its policy framework, performance oversight, and budgetary support as well as for the inter-entity coordination through the Railways Corporation (BHPRC). At the BiH level, the Railway Regulatory Board (RRB) is responsible for international regulation.

3. ŽRS, the railway of the Republika Srpska, is the subject of these ToR. ŽRS is a joint-stock company established in accordance with the Law on Railways of Republic of Srpska (2001). ŽRS may borrow on its own account and issue securities. It falls under the administrative responsibility of the MoTC of the Republika Srpska. The restructuring of its railway sector is a policy priority of the Republika Srpska government. Not only is the sector financially unsustainable in its current form but there is an obligation to meet the railway provisions of EU-Bosnia and Herzegovina Stabilization and Association Agreement (2015). The obligation is to harmonize sector policies with the EU railway framework of directives and regulations (the ‘EU railway acquis’). The framework needs action in a number of areas to become compliant. The areas that most immediately bear on responsibilities currently exercised by the Republika Srpska are those related to organizational structure; budgetary support for passenger services; budgetary support for infrastructure; debt sustainability; and infrastructure access. The restructuring is backed by a new Railway Law passed in 2016 to harmonize the railway sector with the EU rail acquis, restructure ŽRS to promote its financial stability, and for the railway network to be integrated into the European network.

4. The ŽRS railway network consists of 426 route-km (of which 353 route-km are in use) making it one of the smallest networks in the Western Balkans region. The backbone railway route in Republika Srpska is the east-west line from the border with Croatia via Novi Grad, Banja Luka and Doboj. There it meets the Entity’s section of the north-south Pan-European railway corridor Vc. It also provides a link eastward from Doboj to an exclaved portion of ŽFBH’s network centered on Tuzla. ŽRS’s operational network is standard gauge (1,435mm)

predominantly single track (94 percent) and electrified at 25 kV (88 percent). The maximum rated design speed on the main line is generally 100km/h, and many sections have been rehabilitated to this standard.

5. ŽRS freight traffic density of about 1.2 million tonnes/route-km is relatively high compared to neighboring countries and about equal to the EU average. In 2015, it carried around 5 million tonnes of freight for 428 million net tonne-km (ntkm). ŽRS annual deficits recur year after year, even after receiving budget support from the Republika Srpska government. Over 97 percent of the traffic is freight, earning a surplus on operating costs, but nearly half of all the train distance run (49 percent) comprises passenger trains. They carry few passengers but are a huge cost burden which consumes most of the freight surplus, which is therefore not available to re-invest in the freight rail business or contribute more to the upkeep of the infrastructure networks.

6. The World Bank is providing a loan to support the government of Republika Srpska project in restructuring ŽRS which will include financial, workforce and organizational restructuring.

7. The Project is related to the **organizational restructuring** consists of two sub-components:

- **Sub-component 1** involves company reorganization into a corporate core and two main independently managed and separately accounted departments, one for infrastructure management and one for transport operations. The reorganization will be matched by implementation of a modern financial accounting system, and railway asset management systems for infrastructure and operational assets.
- **Sub-component 2** involves preparation of medium term business and marketing plans segmented for infrastructure, transport operations freight and passenger sectors) and railway workshops, and formulation of corresponding contracts with government for passenger services and infrastructure management and development in accordance with the EU railway acquis.

8. ŽRS has created a Project Implementation and Management Team (PIMT) under the oversight of a Project Steering Committee consisting of representatives of the PIMT, ŽRS, MoTC, the Ministry of Finance and the Ministry of Labor of the Republika Srpska. The PIMT will be based in the city of Doboj, Headquarters of ŽRS.

9. These Terms of Reference are for a Consultant to support the work of the ŽRS Project Implementation and Management Team (PIMT) in implementing Sub-component 1.

2. OBJECTIVES OF THE ASSIGNMENT

10. The overall objective of organizational restructuring is to harmonize organizational structure with the EU railway framework of directives and regulations (the ‘EU railway acquis’) while at the same time creating clarity, focus and independence in infrastructure and operating roles. This is intended to improve the commercial management of each and enhance their ability to determine their own business strategies in the context of a European railway system in which each will have different opportunities and constraints, and sometimes different interests.

The specific objectives of the Sub-component 1 Consultant’s Services are to advise, assist and support ŽRS and the MoTC to achieve the following outcomes:

- A. Planning and implementation of a new, more commercial ŽRS organization structure consisting of a corporate core plus two independently managed and separately accounted business divisions, one for infrastructure management and one for transport operations. Within the operating department sector accounts would be kept for freight business and passenger business. Three rollingstock maintenance workshops at Prijedor, Banja Luka and Doboj will be established as separately accounted profit centers under the provisional supervision of the new operating division. It is generally intended by MoTC that the corporate core should be a small and strategic unit with possibly diminishing functions over time and that the operations and infrastructure divisions should be responsible for the day-to-day management of their sectors of the railway business.
- B. Preparation of specification, support in procurement and implementation of a modern and effective financial accounting information system including core general ledger functionality, accounts, payroll, assets and inventory, funds management, HR management, etc: specification and application of such system must be geared to railway businesses and the specific financial and enterprise resource planning, budgeting and management needs of ŽRS's independently managed divisions. It must provide transparent separation of infrastructure and operations accounts (balance sheet, income statement and cash flow) and generate all accounting information necessary to meet corporate, auditing and legal reporting obligations.
- C. Preparation of specification and support in procurement and implementation of the Information System (IS) for (i) a railway infrastructure asset management system for the Infrastructure Division and (ii) a rail operations asset management system for the Operating Division.

11. The Consultant will support the PIMT in procurement by ŽRS of suitable computer hardware and software (IS) for the purposes of complying with these ToR. Such items shall be procured in accordance with the World Bank's New Procurement Framework and Regulations for Projects after July 1, 2016 (available on the World Bank's website). The purchase costs of such systems (including any integral vendor support) shall be financed separately from these consulting services and should therefore not be included in Consultant bids. However, the Consultant should give an indication in its proposal of what it considers to be the likely cost of procuring such systems. Following procurement the Consultant shall provide effective implementation support to ŽRS, including the supervision of the accompanying services and the goods delivered by the vendor.

3. CONSULTANT TASKS

A. Planning and implementation of a new ŽRS organization structure.

12. The Consultant shall undertake the following tasks:

A(i) *Familiarization*: Develop a close understanding of the railway sector in Republika Srpska and consult closely with its policy makers and institutions, to fully understand the organization of the railway sector, the new Railways Law (2016), the intended approach to harmonization with the EU rail acquis. Develop a detailed functional map, or matrix, of all functions currently carried out within ŽRS, analyze the

current organization structure, accounting systems and asset and process management systems of ŽRS.

A(ii) *Stakeholder communications*: Formulate and agree with ŽRS to develop and instigate a communication and media support strategy, including internal and external communications to provide transparency in the overall reorganization plan and positive consultations with stakeholder groups. The strategy shall cover Organizational Restructuring in its entirety (Sub-components 1 and 2).

A(iii) *New organization structure*: Provide detailed organization and management structures (and detailed supporting organigrams) for the proposed new railway organization structure, role statements for its main commercial divisions and functional descriptions for each of the individual work/geographic units within each division. Recognizing that the intention of restructuring is not just to harmonize with EU structures but to create a more effective and sustainable railway industry, the Consultant shall use the opportunity to establish the new constituent divisions and subsidiaries on a sound commercial basis by reviewing the desirable layers of management, optimum numbers of geographic units, opportunities for rationalizing staff classifications and functions etc. The Consultant should design the structure so as to permit, if the government of Republika Srpska were at a future date to so decide, the separation of the Infrastructure and Operating Divisions into separate companies.

A(iv) *Asset allocations*: Formulate and agree with ŽRS to allocate assets to the relevant divisions and other units. The opening balance sheets of the separately accounted Infrastructure and Operations divisions should carry the assets they need and any obsolete or surplus assets disposed of as soon as possible and in the meantime held in the corporate core. These two commercial divisions and the three workshops should not be burdened with unsustainable historic loan obligations which are in practice funded from the budget. Residual or historic obligations should be held in the corporate core.

A(v) *Staff allocations*: Formulate and agree with ŽRS to allocate staff to the relevant divisions. ŽRS is committed to a labor restructuring program that may be contemporaneous with these Consultant services. The constituent divisions of the new ŽRS should ideally only be allocated the staff they need to run the divisions efficiently; staff to be included in the restructuring program but not yet retrenched at the time of establishing the new company structure, should be allocated to a provisional employee classification in the corporate core.

A(vi) *Inter-Divisional charges*: Formulate and agree with ŽRS the principles and opening level of internal prices for transactions between the main divisions and units of which the main charges to be established will be: track access charges from Infrastructure to Operating Division; rolling stock maintenance and repair charges from workshops to the freight and passenger sectors of the Operating Division; and hire of locomotives from the freight sector to the passenger sector for loco-hauled trains. Other cross-charging items may also be required depending on final allocation of staff and resources.

A(vii) *Corporate governance*: Review the existing corporate governance arrangements in terms of effectiveness of roles and responsibilities of the relevant policy ministries (MoTC and Ministry of Finance), Shareholders, Board, and Senior

Management group and recommend any changes which, in the Consultant's view would strengthen corporate governance of the new structure. These arrangements should include the company's reporting and accountability framework, performance measures, public transparency, and a system of dealing with complaints about the administration and quality of service or conduct of the railway sector.

A(viii) *Interaction with Sub-component 2*: Liaise regularly with the Consultant carrying out services in Sub-component 2 so as to ensure consistency between the structural and accounting issues in Sub-component 1 and the business planning issues in Sub-component 2.

B. Specification, procurement and implementation of financial accounting information system.

13. The Consultant shall:

B(i) *Specify the functional requirements of a new financial management information system for ŽRS*: Taking account of ŽRS's proposed new organization structure and possible future corporate evolution, specify ŽRS's functional needs from a financial accounting system including core general ledger functionality, accounts, payroll, assets and inventory, funds management, HR management, etc. Specify key parameters for data collection, documentation, control paths, report generation, interrogation, correction, audit etc. The specification of a system must be focused: that is, geared to ŽRS railway business activities, taking account of the relatively small scale of ŽRS; and reflecting the actual financial and enterprise planning, budgeting and management needs of ŽRS's divisions and subsidiaries. The specification must include transparent separation of infrastructure and operations accounts (balance sheet, income statement and cash flow), separate sector reporting of freight and passenger services within operations, individual accounts for the subsidiary workshops, as well as accounting information necessary to meet corporate and other legal reporting obligations.

B(ii) *Assess system application/implementation requirements*: Assess broad alternatives and costs with regard to the ŽRS application environment, for example cloud computing solutions versus local processing and storage, taking account of geographic distribution of resources and activities, hardware and communications infrastructure needs and costs, data security, maintenance costs, company evolution, training needs etc. Based on this assessment assess the necessary and sufficient hardware and communications investments and assets to enable successful implementation of a financial management system of the recommended specification and produce a comprehensive cost estimate for implementation.

B(iii) *Procurement of new financial management information system*: support the PIMT in the procurement of a financial management information system and necessary hardware and communications infrastructure, such support to include drawing up relevant specifications and tendering documentation where relevant, dealing with queries, assisting in bid evaluation and award of contract.

B(iv) *Implementation support in addition of support of vendor who develop / customize the IS*: Support the PIMT and ŽRS accounting and other departments in the implementation of the financial management system including all activities necessary

for successful implementation including chart of accounts, application manuals, internal transfer pricing rules (where one division or sector uses the assets or staff of another division or sector), training, testing, systems roll-out, resolving teething problems and other activities. Attain opening balance sheets and other financial statements for new structure for beginning of FY 2020. The prerequisite for payment of the last tranche as per the contract is providing a positive opinion by an external auditor.

C. Specification, procurement (if relevant) and implementation of asset management information systems

14. The Consultant shall:

C(i) Analyze, recommend and support implementation of improved rail infrastructure asset management techniques: Taking account of good practices and approaches in other small railways, consult with ŽRS's infrastructure managers and analyze ŽRS's needs and propose an asset management system designed to improve the efficiency and effectiveness of its rail infrastructure assets (land, tracks, train control system, power supply system, communication system, bridges and tunnels, station buildings etc). The asset management system should consider the range of information and uses to which an asset management system could be put:

- asset inventory
- asset condition, use and performance
- management of maintenance
- performance against target
- capital renewal planning
- asset valuation
- setting priorities

The Consultant should propose an approach for ŽRS that is economical to procure or develop/customize relatively simple and flexible IS for ŽRS managers and staff to use. Asset management should build into the company's asset maintenance and replacement specifications the standards and practices that would strengthen the resilience of the railway network to extreme weather events.

C(ii) Analyze, recommend and support implementation of improved operational asset management techniques: Taking account of good practices and approaches in other small railways, analyze ŽRS's specific needs and challenges and propose an asset management system designed to improve the efficiency and effectiveness of its rail operations assets (locomotives, freight wagons, passenger coaches, freight handling equipment etc). The Consultant should consider the same range of issues and possible applications as listed for the rail infrastructure asset management system (C(i) above) again with an emphasis on developing economical and practical decision aids for rail operations managers and staff that can be improved in detail and functionality over time.

C(iii) Procurement/development of asset management systems: Support the ŽRS's technical departments *specifying* the functional requirements related to procurement/development of the asset management systems for the two main divisions.

C(iv) *Implementation support in addition to support of vendor who will develop / customize the new financial management information system:* Support the PIMT and ŽRS infrastructure and operations divisions in the implementation of the asset management systems including application manuals, training, systems roll-out, resolving teething problems and other activities as necessary.

15. The Consultant will commit to apply BiH/RS regulations and standards during his/her work.

4. DELIVERABLES

16. The Deliverables for which the Consultant shall be responsible are specified in Table 1. The project deliverables are specific to sub-components. The detailed content of each report or other deliverable should be proposed by Consultants and agreed by the client during the conduct of the assignment.

17. After submission of the reports on (a) agreed organization and management structure, (b) financial management system specification, and (c) asset management system specifications the Consultants shall with the PIMT plan and conduct a one day policy workshop in Banja Luka to present its findings and recommendations to government and company officials. The Consultants shall provide high quality visual presentations of the sub-component findings and proposals and shall take account of inputs made by participants in the workshop, and in response to the Reports, in progressing to implementation of the new organization structure and financial and other systems.

18. All the delivered materials must be in English and one of the official languages of BiH, submitted in six hard copies and one in the electronic form (Word and PDF).

Table 1: Consultant deliverables by sub-component

Delivery (end month), beginning with the Contract signing date	<i>Part A</i> Organisation and Management (O&M) Structure	<i>Part B</i> Accounting and Financial Management	<i>Part C</i> Asset Management
1			
2	Establishment of communication and media support strategy Task A(ii))		
3	Report on agreed O&M structure and associated matters (Tasks A(iii)-A(viii))	Report specifying new financial management system and procurement and implementation plan (Tasks B(i) and B(ii))	Report specifying new assets management systems and procurement/development and implementation plan (Tasks C(i) and C(ii))
	Organizational Restructuring Policy workshop I on the planned O&M, financial management and asset management systems		
4			
5			
6		Complete the procurement of new financial management system (Task B(iii))	Complete procurement or development of new asset management systems (Task C (iii))
7 - 18		Support ŽRS in implementation of new financial management system and creation of opening balance sheets and other financial statements for new structure for FY 2020 (Task B (iv))	Support ŽRS divisions in implementation of assets management systems with target to achieve functioning systems by FY2020. (Task C (iv))

5. DURATION

19. The overall duration of the assignment shall be eighteen (18) months, counting from the date of signing the Contract. The intention is to have the new organizational structure and financial accounting systems in place for FY 2020 (that is, by January 2020), with some of Consultant's support continuing after that date in the period of duration of the Contract.

6. SKILLS AND STAFFING

20. The assignment will require a qualified consulting company or consortium that can demonstrate extensive experience of (i) planning and implementing modern financial information system and (ii) asset management information systems in state-owned enterprises, including in the (small) railways, as well as experience in organization restructuring and change management. The required minimum experience should be demonstrated by at least three (3) assignments that included similar tasks during the last 15 years. (at least 1 combined assignment of (i)+(ii) and at least two assignments under (i) and (ii) each)

The Consultant's team should have extensive experience in the field of services mentioned above, capable of providing the deliverables to a high standard within the required time-frame. The following key skills shall be represented within the team proposed (Table 2):

Table 2 Key qualifications and skills matrix

Title	Qualifications/ Experience	Skills	Expected person-months
Project Manager and financial management systems expert	<ul style="list-style-type: none"> • Master's degree in financial and management accounting, or business administration with strong accounting component. • Minimum 15 years' experience in designing and implementing financial management systems meeting relevant international accounting standards for major public and private enterprises. 	<ul style="list-style-type: none"> • Taking day-to-day responsibility and accountability through effective project leadership, oversight and control, for the adhesion to timeline and quality of deliverables in all three sub-components • Excellent day-to-day client liaison skills required • Good English language communication skills, written, oral and presentational 	10
Governance, organization and management restructuring expert	<ul style="list-style-type: none"> • Master's degree in business administration, HR, public administration or equivalent. • Minimum 15 years' experience in relevant organisation management restructuring assignments 	<ul style="list-style-type: none"> • Extensive practical experience of design of efficient and effective commercial organization and management structures and sound corporate governance arrangements • Excellent day-to-day client liaison, reporting and presentational skills 	4
Expert in railways management, the EU railway acquis and European railway industry models	<ul style="list-style-type: none"> • Master's degree or equivalent in engineering, economics, business management or other discipline • Minimum 10 years' consulting/administrative experience in the practical management of railways of EU member state(s). 	<ul style="list-style-type: none"> • Practical skills and professional experience in European railway sector including close knowledge of both passenger and freight service sector requirements. 	4
Public communications expert	<ul style="list-style-type: none"> • Master's degree in a relevant discipline 	<ul style="list-style-type: none"> • Practical skills and professional experience in designing public and internal communications strategies for public enterprises or departments 	3
HR expert	<ul style="list-style-type: none"> • Degree or equivalent in HR Management • Minimum 10 years' experience in the development and implementation of HR plans in the restructuring state-owned companies. 	<ul style="list-style-type: none"> • Specification of detailed management and staffing plans by grade and function and qualifications • Management and occupational gaps and needs and training plans 	3
Asset management expert	<ul style="list-style-type: none"> • Degree or equivalent in appropriate engineering or technical discipline • Minimum 8 years' experience in implementing railway asset management systems 	<ul style="list-style-type: none"> • Design and implementation of asset management systems especially for network infrastructure and transport operating businesses. 	5