

BOSNIA AND HERZEGOVINA

Railways Modernization Project: Republika Srpska Organizational Restructuring: Sub-component 2 Business Plans and Public Contracts

Terms of Reference

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, and at the entity level, the line ministries in each Entity respectively.

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 (ZRS). 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 (BHŽJK). At the BiH level, the Railway Regulatory Board (RRB) is responsible for international regulation.

3. ŽRS, the railway company 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 (MoTC). 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 overarching policy challenge to meet the provisions of EU-Bosnia and Herzegovina Stabilization and Association Agreement (2015) as they apply to the railway sector. The 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, track access, budgetary support for passenger services; budgetary support for infrastructure; and debt sustainability. The restructuring is backed by a new Railway Law passed in 2016 to harmonize the railway sector with the EU rail acquis, restructure ŽRS to promote its financial stability, and for the railway network to be integrated into the European network.

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 the exclave part 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 RS 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 shall grant a loan to BiH/RS to support the Government of Republika Srpska in restructuring ŽRS which will include financial, workforce and organizational restructuring.

7. This Project relates to the **organizational restructuring** which 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 Management Team (PIMT) under the oversight of a Project Steering Committee consisting of representatives of the PIMT, ŽRS, MoTC, the Ministry of Finance (MF) and the Ministry of Labor of the Republika Srpska. The PIMT will be based in the city of Doboje, Headquarters of ŽRS.

The PIMT will be supported by the two consultancies: one for assisting with organizational restructuring, accounting and business systems (sub-component 1; the second assisting with business planning and establishing contractual relationships with government (sub-component 2). The organizational restructuring is planned to be implemented in 2019-2020 with the proceeds of a planned World Bank loan, with the intention that the restructured organization be operating according to its new structure, accounts and business plans in FY 2020.

9. These Terms of Reference are for a Consultant to support the work of the ŽRS Project Implementation Management Team (PIMT) in implementing Sub-component 2.

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.

11. The specific objectives of the Sub-component 2 Consultant Services are to advise, assist and support ŽRS and the MOTC to achieve the following objectives:

- A. Development of commercially-driven and financially attainable and sustainable medium-term (2021-2025) Business Plans (including marketing plans), based on good railway practices and experiences, for the constituent divisions and subsidiaries of ŽRS.
- B. Formulation and drafting of a detailed multi-annual Public Passenger Services Contract (PSC) (5-years contract) to be agreed between ŽRS (Operating Division) and government of RS together with proposed annual contract prices and payment arrangements consistent with the Operations Division Business Plan for passenger services.
- C. Formulation and drafting of a detailed multi-annual Infrastructure Contract (MAIC) (5-years contract) and proposed contract price and payment arrangements to be agreed between ŽRS Infrastructure Division and government of Republika Srpska consistent with the Infrastructure Division Business Plan.

12. The Business Planning activity and deliverables in item A above should be structured according to the planned future organizational structure of ŽRS being implemented as part of sub-component 1.

Therefore specific plans will be required for:

- (i) the Operations Division, within which there will be distinct freight and passenger sectors
- (ii) the three rolling stock maintenance workshops at Prijedor, Banja Luka and Doboj which should be considered and analyzed individually but may be subject of a consolidated sub-plan
- (iii) the Infrastructure Division and
- (iv) the corporate core.

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.

13. It will also be necessary to provide an overall consolidated plan and projections but the starting point should be to create practical plans for the ‘unbundled’ business activities from a ‘bottom-up’ basis.

3. CONSULTANT TASKS

A. Business Planning

12. The Consultant shall undertake the following tasks:

A(i) Current performance appraisal: Review the details and trends in BiH railway performance and background documents such as the recent World Bank Policy Note on BiH Railways. Update the benchmark indicators in that Policy Note and any other indicators considered important by the Consultant to gauge the efficiency and effectiveness of operations.

A(ii) Articulate Business Objectives for each of the main divisions and units and for the organization as a whole: ŽRS' railway businesses and workshop activities are in a unfavourable financial state facing a very difficult external market environment. Many Business Plans start from a long-term 'vision' but the current circumstances call for concrete, common-sense and achievable aims and robust management plans to achieve them.

A(iii) Business Planning model: Design, produce, apply and document a corporate financial model to generate projected income statements, balance sheets and cash flow statements and financial performance indicators over the 5-year Business Planning period for each of the main divisions and units and for the organization as a whole. Data and assumptions are to be fully documented and the model produced so as to be sensitive to market and operational variables. It will need to contain transparency of the agreed internal charges (from Sub-component 1) for transactions between the main divisions and units: 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; hire of locomotives from the freight sector to the passenger sector for loco-hauled trains; and possibly others. The Business Planning model should be documented so ŽRS itself may use it in future to assess alternative business configurations and to update the Business Plan each year on a rolling basis.

Operations Division Business Plan

A(iv) Transport market appraisals: Undertake a quantitative and qualitative appraisal, including surveys of existing users, of the scale and value of ŽRS existing and potential freight and passenger markets, suitable segmented. Freight should be segmented into the main markets. Passengers should be segmented by route while identifying other key user characteristics such as age, gender, journey purpose, access mode etc. Assess market needs and identify gaps between market requirements and existing services in terms of specific attributes of service availability, service levels and service quality. Assess competitive threats and opportunities. Specify a 5-year marketing plan to underpin the Business Plan.

A (v) Transport Operations Management Plan: Review, analyse and recommend management and business process changes to improve the efficiency and/or market effectiveness of ŽRS Operations Division in a way that would safely and reliably meet customer needs. The Plan should look at all aspects of business process including train planning and operations, resource utilisation (labour and equipment), rolling stock maintenance, and so on. The Consultant's advice should be based on ŽRS specific circumstances but capturing applicable best practices of companies providing a similar range of railway services in other countries. The Consultant should provide separate plans for freight and passenger sectors and within these be segmented consistent with that of the market appraisals.

A(vi) Transport Operations Investment Plan: Propose an investment plan for each of freight and passenger sectors geared to progressively improving assets to meet market needs. Investments may include new or used rolling stock, or major refurbishment of existing assets. Given the extremely low rate of operating cost recovery of passenger services from farebox revenues (about 5 percent) any capital reinvestment in the passenger sector would be financially sustainable only if the capital is fully granted by the Republika Srpska as part of, or in addition to, its passenger Public Service Contract

payments. Therefore the operating and investment plans must be consistent with the Passenger Services Contract to be formulated in work stream B and, on the basis of consultations with MoTC and MOF, must be at a level which there is reasonable expectation that the Republika Srpska will be willing and able to fund.

A(vii) *Transport operations, business and financial projections*: Based on activities A(iv) to A(vi) use the Business Planning model (A(iii)) to establish for the Operating Division realistic and segmented business plans, and financial projections, and identify key issues, risks and critical actions which underpin these targets. Such appraisal should recognize the imperative of the Operating Division to be financially sustainable from its income sources which may include transport income (freight tariffs and passenger fares), ancillary income and Passenger Service Contract income from Republika Srpska and/or local governments.

A(viii): Prepare a Business Plan and financial projections for the three Workshops. ŽRS intends to locate these under the general supervision of the Operations Division but the intention is that they become autonomous entities, eventually companies, providing services not only to ŽRS but providing engineering services to external customers not necessarily only in the railway sector. The Business Plans should include appraisal of any such market opportunities and the business plans and financial projections for the workshops should be kept separate from those of the railway operations activities of the Operations Division.

Infrastructure management division

A(ix) *Infrastructure utilization projections*: Provide projections of infrastructure usage consistent with the ŽRS Operations Division business plans. At present the Republika Srpska government does not intend to institute third-party access to its rail network until accession of BiH to the EU. Since this is highly unlikely within the 5-year Business Planning period no other source of track access revenue is anticipated.

A(x) *Infrastructure Management Plan*: Review, analyse and recommend management and business process changes to improve the efficiency and/or market effectiveness of ŽRS Infrastructure Division in a way that would reliably and safely meet needs of railway operators (in the immediate future ŽRS Operating Division but in the longer term including other operators). The Plan should look at all aspects of infrastructure management including asset and labour utilisation and productivity, operating practices, train control, maintenance practices, etc. The Consultant's advice should be based on the ŽRS network's specific circumstances but capturing applicable relevant best operation and maintenance practices of companies supplying a similar range of railway infrastructure services (tracks, train control, communications, stations, power supply, etc.) in other countries using comparable technology.

A(xi) *Infrastructure Investment Plan*: Propose a 5-year investment plan for the Infrastructure Division based on commercial priorities. Given that track access charges, when levied at market levels in the region, will be unable fully to fund infrastructure operating, maintenance and renewal costs, the program will be financially sustainable only if infrastructure capital is largely or fully granted by the Republika Srpska government. Therefore the operating and investment plans for infrastructure must be consistent with the MAIC to be formulated in work stream C. On the basis of

consultations with MOTC and MOF it must be at a level which there is reasonable expectation that the Republika Srpska will be willing and able to fund it.

A(xii) Infrastructure business and financial projections: Based on activities A(ix) to A(xi) use the Business Planning model (A(iii)) to establish for the Infrastructure Division a realistic business plan, and financial projections, and identify key issues, risks and critical actions which underpin these targets. Such appraisal should recognize the imperative of the infrastructure company to be financially sustainable from its income sources which may include: infrastructure access and ancillary charges; property, station and advertising income etc; and income from the MAIC with the Government.

Corporate core

A(xiii) Corporate Core financial projections: Provide a 5 year plan and cost projections for the proposed ŽRS corporate level activities, identifying efficiency improvements. It is generally intended by MoTC that the corporate core should be a small and strategic unit and that the main divisions should be the main business management units of the enterprise.

Consolidation

A(xiii) Corporate financial projections: In addition to the individual divisional and sector plans provide the consolidated 5 year plan and financial projections. The plans should aim at achieving progressive operational and efficiency improvements, and increasing financial sustainability (taking into account government contract income) in each of the main divisions and units and hence in ŽRS as a whole.

B. Passenger Services Contract

13. The Consultant shall undertake the following tasks:

B(i) Contract structure and formulation: Review and analyze the necessary and desirable features of a public passenger services contract (PSC) proposed to be agreed between the government of Republika Srpska and ŽRS that shall be compliant with the EU railway acquis and good practice. Propose and draft a pro-forma contract that shall contain all the sections and provisions necessary to give effect to a multi-annual contractual relationship regarding the level, standard and fares of train services by route. Agree the draft pro-forma PSC with ŽRS, MoTC and MoF.

B(ii) Drafting of PSC contract provisions: Based on the passenger service business plan (operations and investment) developed and agreed in work-stream A, complete the draft contract in terms of actual specification of rail services by route, the required contractual payments from government consistent with the specification and broken down into operating and capital (if relevant) payments, and with operating expenses itemized by train operating costs (train crew, energy, rolling stock maintenance) station costs, indirect costs, track access charges and (if appropriate) an allocation of corporate overhead costs. Although needing to be itemized for cost verification purposes they may be charged on a simpler basis (e.g. by train-km) by route. Formulate and agree with ŽRS, MoTC and MoF to amend or modify the Business Plan and corresponding service specifications and payment amounts: the Consultant should be prepared to conduct this work in an iterative

way, with the possibility of needing to prepare a range of priced alternatives, until agreement on a final draft PSC is attained.

B(iii) Estimate of an alternative road-based PSC: Estimate the likely prices by route of provision of the transport services specified in the final draft PSC if the same service specification were to be provided by road coach operators contracted by competitive tender to provide services of adequate capacity and comparable service frequency, stopping patterns, and speed while using good quality modern road coaches. Comment on the institutional, administrative and regulatory arrangements by which such contracts might be implemented.

C. Infrastructure Contract

14. The Consultant shall undertake the following tasks:

C(i) MAIC contract structure and formulation: Review and analyze the necessary and desirable features of a multi-annual infrastructure contract (MAIC) proposed to be agreed between the government of Republika Srpska and ŽRS that shall be compliant with the EU railway acquis and good practice. Propose and draft a pro-forma contract that shall contain all the sections and provisions necessary to give effect to the contractual relationship regarding the operation, maintenance and if appropriate rehabilitation and upgrading of rail network infrastructure disaggregated into its main components including tracks, structures, train control, communications, stations, power supply etc. Agree the draft pro-forma MAIC contract with ŽRS, MoTC and MoF.

C(ii) Drafting of MAIC provisions: Based on the infrastructure division business plan (operations and investment) developed and agreed in work-stream A, complete the draft contract by specification of the actual infrastructure provisions by route and the required contractual payments from government consistent with that specification after allowing for income from track access charges. Liaise and consult with ŽRS, MoTC and MoF to amend or modify the infrastructure business plan and corresponding infrastructure specifications and payment amounts: the Consultant should be prepared to conduct this work in an iterative way, with the possibility of needing to prepare a range of priced alternatives, until agreement on a final draft MAIC is attained.

15. *Interaction with Sub-component 1:* Maintain regular contact with the Consultant who performs tasks under Sub-component 1 to ensure consistency between structural and accounting issues in Subcomponents 1 and issues related to business planning within Subcomponent 2.

16. During his work, the Consultant will commit to apply the regulations and standards of BiH/RS.

5. DELIVERABLES

17. The Deliverables for which the Consultant shall be responsible are specified in Table 1. The project deliverables are specific to sub-components. A table of detailed content of each deliverable should be proposed by Consultants and agreed by the client during the conduct of the assignment. However, it should be noted that the business plan deliverables in Module A are to be prepared in close liaison and consultation with ŽRS's PIMT and its

divisional managers and presented as drafts of the company's own business plans, not as a consultant report on business planning.

18. After submission of the draft Business Plans and contracts, the Consultants shall with the PIMT plan and conduct a one day policy workshop in Banja Luka to present its findings and draft plans and contracts to government and company officials. The Consultants shall take account of inputs provided at the Workshop in preparing the final deliverables.

19. 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

<i>Delivery (end month, counting from the Contract signing date)</i>	<i>SUB-COMPONENT A</i>	<i>SUB-COMPONENT B</i>	<i>SUB-COMPONENT C</i>
	Business Planning	Passenger public services contract	Multi-annual Infrastructure contract
1			
2	Inception Report on Business Planning methodology and Model (tasks A(i) to A(iii))		
3			
4		Draft pro-forma PSC and supporting explanatory report and costing details (task B(i))	Draft pro-forma MAIC and supporting explanatory report and costing details (task C(i))
5			
6	Draft Business Plans for ŽRS divisions and sectors and consolidated plan. (tasks A(iv)-A(xiii))	Recommended draft PSC (including service specification and proposed government payments). (task B(ii)) Alternative road-coach based PSC (including service specification and proposed government payments) (task B(iii))	Recommended draft MAIC (including standards and works specification and proposed government payments) (Task C(ii))
7	Organizational Restructuring Policy workshop II on recommended Business Plans and government contracts		
8	Final Business Plans for ŽRS divisions and sectors and consolidated plan. Documented copy of and Manual on use of Business Planning Model	Final draft PSC	Final Draft MAIC

6. DURATION

20. The overall duration of the assignment shall be eight (8) months, counting from the date of signing the Contract (the contract should start after the proposal of a new organization to be made by Sub-Component 1 Consultant is adopted).

7. SKILLS AND STAFFING

21. The assignment will require a qualified consulting company or joint venture that can demonstrate extensive experience of railway business planning (including railway-specific technical, engineering, and economic experience) and of the public contracting structures mandated and used within the framework of the EU railway acquis. The required minimum experience should be demonstrated by at least (3) assignments that included similar tasks during the last 15 years. The target is to have ŽRS's new organizational structure in place for FY 2020, so the Business Plans and corresponding PSC and MAIC contracts should be based on the period 2021-2025.

The minimum requested experience should be proven.

The Consultant should propose a team 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	Role/Skills	Expected person- months
Project Manager and business planning expert	<ul style="list-style-type: none"> • Master's degree or equivalent in Economics, Business Administration, Railway Management/Engineering • Minimum 10 years' management/ management consulting experience in business planning for a range of mixed-use (passenger and freight) state-owned railways including those operating within the framework of the EU railway acquis 	<ul style="list-style-type: none"> • Taking day-to-day responsibility and accountability for the assignment, adherence to timeline and quality of deliverables in all three sub-components • Identification of market, operational, investment and management actions needed to realize commercial objectives • Excellent day-to-day client liaison skills • Good English language communication skills, written, oral and presentational 	7
Railway traffic operations management expert	<ul style="list-style-type: none"> • Degree or equivalent in relevant railway technical/engineering discipline • Minimum 10 years' practical experience in railway management or railway management consulting in the field of rail transport operations management and marketing 	<ul style="list-style-type: none"> • Assessment of existing management and work practices in train operations • Identification of improvements in efficiency and effectiveness of train operating division as input to Business Plan 	4
Railway infrastructure management expert	<ul style="list-style-type: none"> • Degree or equivalent in relevant railway technical/engineering discipline 	<ul style="list-style-type: none"> • Assessment of existing management and work practices in rail infrastructure management 	4

	<ul style="list-style-type: none"> Minimum 10 years' practical experience in railway management or railway management consulting in the field of railway network infrastructure management 	<ul style="list-style-type: none"> Identification of improvements in efficiency and effectiveness of rail infrastructure division as input to Business Plan 	
Railway workshops expert	<ul style="list-style-type: none"> Degree or equivalent in rolling stock engineering or general rail engineering Minimum 10 years' practical experience in railway workshops management or railway management consulting in the field of rolling stock maintenance and repair. 	<ul style="list-style-type: none"> Assessment of existing management and work practices in rail workshops Identification of improvements in efficiency and effectiveness of rail workshops as input to Business Plan 	4
Business/financial modelling expert	<ul style="list-style-type: none"> Degree or equivalent in economics, financial modelling or business administration Minimum 8 years' practical experience in financial/business modelling of railway businesses, and railway segment costing 	<ul style="list-style-type: none"> Development and operation of the Business Planning model(s) under the guidance of the Project Manager Good writing skills for drafting a user-friendly manual for future use of the Business Planning model. Fluency in local language is an advantage 	6
Expert in railway-government contracts	<ul style="list-style-type: none"> Degree or equivalent in law, economics, public administration Minimum 8 years' experience in managing the contractual and regulatory interface of railways with governments including specific experience of drafting PSC's MAIC or both 	<ul style="list-style-type: none"> Drafting and specification of PSC and MAIC contracts. Charges for alternative contract specifications Fluency in local language is an advantage 	4

8. LOCATION OF PERFORMANCE

22. Mainly Dobož in Zeljeznice Republike Srpske and partially Banja Luka (MoF, MoTC).

9. CLIENT'S INPUT, INCLUDING COUNTERPART PERSONNEL ASSIGNED BY THE CLIENT TO WORK ON THE CONSULTANT'S TEAM

23. The Client shall obtain the following facilities to the Consultant:

- Office accommodation with furniture,
- Communication infrastructure (fixed telephone and internet connection),
- Background reports, and all necessary documents related to the assignment and available by the Client,
- Technical and logistics support for workshops (conference room, technical support, video, speakers and other facilities necessary for the workshop performance).

10. COUNTERPART PERSONNEL ASSIGNED BY THE CLIENT TO WORK ON THE CONSULTANT'S TEAM

24. The Client shall assign personnel for administrative support to the Consultant's team

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