

RAILWAY REFORM PROGRESS REPORT

A. Background

1. The Bangladesh Railway Reform Project supports implementation of sector reform and institutional strengthening actions agreed with the Government and Bangladesh Railway (BR). It encompasses (i) restructuring BR into an lines of business (LOB) structure; (ii) preparing an asset register for BR; (iii) improving financial governance, management, and accounting systems; (iv) improving human resource governance and utilization; and (v) transforming BR ultimately into a government-owned corporate entity, while enhancing the rail safety regulatory framework. The sector reform matrix giving the detailed time-bound policy actions and reform measures to be undertaken by the Government and their linkages to tranche approvals is in the Framework Financing Agreement for the Railway Sector Investment Program Multitranches Financing Facility (MFF), this report summarizes the progress of the railway reform activities.

2. The Bangladesh Railway Sector Investment Program MFF is structured such that the reform project will provide continuous support to implement the agreed reform agenda, whilst the investment program will be supported by a series of four tranches. The reform and the investment projects are integrated as approval of subsequent tranches for investment subprojects is dependent on the implementation of specific reform actions agreed upon in the railway reform action plan in the FFA.

3. Loan 2317 for the Reform Project finances (i) consulting services to implement the reform actions; (ii) procurement of computer hardware and software needed to implement the financial management, accounting, and human resource management systems for enhancing financial and human resource governance; (iii) equipment to improve rail safety; and (iv) consulting services for performance and procurement audits.

B. Status of implementation support for reform agenda under the reform project

4. The **Reform Project (loan 2317)** under the first tranche became effective on 24 April 2007. BR is the Executing Agency and the project is implemented under the Reform PIU. The estimated project completion date was extended to 9 October 2016. Due to the complexity of the railway restructuring and the need for extensive stakeholder consultation within the railway and consultations with other related government bodies, the project was delayed and the conditions for submission of PFR 2 were only achieved after more than 4 years compared with the initially targeted 12 months, the conditions for submission of PFR3 were achieved after nearly 7 years compared with the initially targeted 24 months. It is expected that the conditions for submission of PFR4 will be achieved in late 2015, after 9 years, compared with the initially targeted 48 months. This shows the complexity of the reform process, but also BR's continuous commitment to implement the reform despite the long process.

5. Under Loan 2317, \$5.1 million equivalent was committed as of 8 September 2007 for the engagement of a consulting firm to draft a restructuring plan for BR. The consultant's proposal for restructuring BR into lines of business (LOB) was submitted to the Ministry of Communications in November 2008 and forwarded to other concerned ministries for concurrence. The approval process took time due to the large number of stakeholders involved and approvals required from government agencies outside the Ministry of Communication¹. The

¹ Until the Ministry of Railways was established by the Government of Bangladesh in 2011, the Ministry of Communication was the nodal Ministry for railways in Bangladesh.

approval process for the LOB organization structure delayed the Project for about 30 months. The consultants continue to support BR in implementing the agreed reform agenda, including the targets set out for the approval of the third and fourth tranches of the investment program.

6. Loan 2317 also includes the procurement of an Enterprise Resource Planning (ERP) IT-system to implement BR's management information system, asset registry, new accounting structure and financial management systems, and human resource database system. The amount of \$4.1 million equivalent was committed as of 5 February 2011 for the procurement of the ERP IT-system along with its customization, implementation and commissioning. The full implementation period of this ERP IT-system is for two years plus two years of support in the start-up phase of the ERP IT-system. The contract was signed on 25 January 2011. The full implementation of the ERP IT-system in BR requires procurement of IT-hardware, for which \$6.4 million in two contract packages have been committed as of 27 May 2013. The IT-equipment and networks are progressively rolled out nationwide. In parallel, staff training is carried out to ensure accurate data collection and wide acceptance of the ERP IT-system. While the ERP- IT-System has been rolled out in BR's headquarters in Dhaka and Chittagong and the rolling stock workshop in Chittagong, the nationwide roll-out got delayed until 2015/2016.

7. The procurement of Safety and Operational Improvement Equipment in three contract packages was committed on 14 June 2011 for about \$5.7 million equivalent; the fourth contract package was committed on 22 May 2013 for about \$0.6 million equivalent after re-bidding, as no technical responsive bid has been received in the first round of bidding. Out of the total loan amount of \$29.5 million equivalent, \$22.5 million equivalent or 76% of the loan amount have been committed. The cumulative disbursement is \$17.5 million equivalent or 59% of the loan amount as of 15 June 2015.

C. Improvements in the railway sector performance

8. **Traffic.** BR has made progress in attracting and carrying more passenger and freight traffic. The total number of passengers increased from 40 million passengers annually in FY2004-05 to 65 million in FY 2013-14. BR managed to increase the number of container carried annually from around 45,000 TEU in FY2004-05 to 65,000 TEU in FY2009-10 and to 67,197 TEU in FY2011-12, while it was declining to 60,406 TEU in FT 2013-14. These increases from FY2004-05 to FY2013-14 are notably, as they were achieved on the same infrastructure and basically with the same fleet of rolling stock, which was further ageing during this time. So the increase in passenger and freight cargo and decrease in the number of derailments are clear indicators that BR managed to use the assets more efficiently, improve maintenance for infrastructure and rolling stock and sell more tickets to traveler.

9. At the same time, the total number of staff decreased from around 35,000 in FY2004-05 to less than 28,000 in FY2009-10, 26,458 in FY 2011-12 and 25,646 in FY2013-14. giving another indicator for overall improvement of efficiency. However, BR is lacking skilled labor in some fields and the human resource management system in the ERP IT-System will help to identify these areas, manage staff country-wide more efficiently and recruit additional staff to fill remaining vacancies.

10. **Improvement of railway safety.** The number of derailments has decreased from 592 in FY2004-05 to 403 in FY2009-10, 138 in FY2011-12, and slightly increased to 158 in FY2013-14, after peaking at 790 in FY2005-06. The number of collision between trains has decreased from 7 in FY2004-05 to 2 in FY2009-10 and nil in FY2011-12, but increased to 3 in FY2013-14. These numbers show that improvement in the field of railway safety was made, especially

considering that the number of passengers and the amount of freight transported increased in the same period of time without any addition to the infrastructure. The number of derailments and collisions has increased in FY2013-14 compared with FY2011-12, which may be an indicator that infrastructure and rolling stock are getting older and overstretched. Additional double track sections, installation of modern signaling and introduction of new rolling stock are expected to revert this recent trend in the next years while traffic is expected to grow simultaneously.

11. **Financial Performance.** The working ratio (operation expenses divided by operation revenues) has not improved in parallel mainly due to the passenger and freight tariff that was frozen by the government for years and the fact that BR is operating for years beyond the theoretical operating capacity especially in the Dhaka–Chittagong corridor, where additional, revenue generating freight traffic could be originated. As shown in the Attachment of this Supplementary Appendix, the working ratio with subsidy is now at 174% in FY2013-14, after peaking at 216% in FY2011-12 compared with 161% in FY2007-08. The improvement in FY2013-14 was caused by an increase in the tariff approved by the government in October 2012. The adjustment of passenger and freight tariff was the first since 1992. As no further adjustments of the tariff have been introduced since 2012, the working ration dropped from 168% in FY2012-13 to 174% in FY2013-14. The proposed tariff reform, which is targeted to be approved in October 2015 will ensure that the operation ratio will improve again.

12. Once the ongoing double tracking in the Dhaka–Chittagong corridor is completed, the new rolling stock is commissioned, additional passenger and freight trains with more reliable schedules can be introduced in the Dhaka–Chittagong and Dhaka–Khulna corridors. Additional revenues generated by these additional services will improve the working ratio further. It has been assessed that especially container trains and Intercity trains are operating with a net profit.

13. **Private sector participation.** BR has started with private sector participation in the railway sector by outsourcing railway reservation and ticketing systems for selected routes and trains to private sector companies using computerized reservation and ticketing systems on contractual bases. This has improved the efficiency of the seat reservation system and the number of tickets sold. Catering of food and beverages in trains has also been outsourced on contractual basis to private sector operators. Installation, operation and maintenance of fiber-optic cables along major railway lines were also outsourced to the private sector.

D. Ongoing reform actions

14. BR is progressing in the efforts to achieve the reform targets agreed upon in the FFA for approval of PFR4, which include as key actions (i) outsourcing of non-core services, (ii) a tariff reform and (iii) transformation of BR into a government owned corporate entity. As it is currently politically not possible to transform BR as a whole into a government owned corporate entity, it was agreed to focus on the container business of BR as the pilot case for this transformation of BR into a corporate entity. This would allow BR's container business to work more customer oriented and in closer contact with its private sector clients, so that the additional capacity in the railway infrastructure, which will progressively be available from 2015 onwards, can be used to increase the market share in the container business in the lucrative Dhaka–Chittagong freight market. In parallel, the tariff reform will provide BR more flexibility in setting tariffs in the container business and higher classes of passenger accommodation based on the market situation and adjust tariffs more flexible based on commercial considerations. Retaining the corporatized container business under the roof of BR ensures that the profits from the container business will support the development of the railway sector in Bangladesh as a whole. The

corporatization of the container business, once successfully completed, would then be replicated in the coming years in other sectors, while the accounting-structure based on the LOB-organization together with the ERP IT-system will allow BR to enter into negotiations on targeted financial support for loss-making services based on public service obligations.

15. **Outsourcing of non-core services.** BR has identified non-core services, which are currently provided by BR, but are not essential for the safe and reliable operation of trains and maintenance of assets, such as for example railway owned and operated hospitals. BR has developed a strategy for outsourcing these railway hospitals and converting them into medical colleges by private sector involvement on a public-private partnership (PPP) basis while continuing to provide the necessary medical services to BR staff. Similarly, BR will develop unused land in station areas of major cities such as Dhaka, Comilla and Chittagong in cooperation with private sector investment on a PPP basis in shopping centers, Hotels, etc. The outsourcing strategy for these non-core services has been approved by the Ministry of Railways and the Government of Bangladesh. Recruitment of the Transaction Advisor for the outsourcing of the railway hospitals is going on; the process is carried out by the PPP-office of the Government of Bangladesh.

16. **Tariff Reform.** As described in para 11 above, BR's financial performance has been declining after initial improvement due to the tariff adjustment in October 2012. Since then, the tariff has not been adjusted despite growth in the operating cost such as salaries, fuel prices etc. The tariff reform will establish a mechanism, which will adjust the tariff annually based on a formula comprising main cost for operation and maintenance of BR. It is envisaged that the annual adjustment of the tariff will be proposed by BR and approved by MOR. The annual adjustment of the tariff will ensure that the operation ratio is not declining further. The tariff reform is expected to be approved by the Cabinet of Bangladesh in October 2015 and the tariff reform will then be immediately implemented by BR.

17. **Container Business Corporatization.** The container corporation will operate in close cooperation with private sector logistics provider and will ensure Bangladesh's competitiveness in the global market by improving the quality and reliability of transport services provided. This will become possible after the infrastructure investments into the Dhaka–Chittagong corridor are completed in 2015 and additional container trains can operate between Dhaka and Chittagong Port. As these freight services are profitable, it is expected that the financial performance of BR will improve as well. The approval and incorporation of the container corporation is expected within October 2015. As all necessary documents, operation procedures and memoranda for association have been prepared, it is targeted that the company will commence its operation immediately after the final Government approval within 2015.

E. Conclusion and way forward

18. The implementation of the reform took longer than initially expected, as stakeholder consultations at all levels in the government and in BR were necessary to ensure a smooth implementation of the project. Convincing BR's staff by the benefits of the reform was especially crucial to secure smooth implementation and success of the reform. Extensive training and communication with all staff levels was carried out to ensure success of the individual actions under the reform program. It is expected that the tariff reform and corporatization of the container business can be achieved in 2015 and BR and MOR have already obtained different in-principle approvals and carried out stakeholder consultations within the government to ensure timely implementation of the actions; ADB provides continuous support for the implementation under the Bangladesh Railway Reform Project (Loan 2317-BAN).

SUMMARY OF FINANCIAL INFORMATION

19. The financial report for the FY 2013-14, which ended on 30 June 2014, statement for the balance sheet had been prepared by the ERP IT-System; likewise, the Asset Registry has been updated as of 30 June 2014 and has been migrated into the ERP IT-System. Financial Reports starting from the month of July 2013 have been prepared by the ERP IT-System and the data has been verified based on the paper-based accounts. Staff training and coaching of ERP IT-System operators will continue to ensure high reliability of the data collected in the system.

20. Revenue and expenditure are being recorded in the system from July 2013 onwards, separately for 16 remote accounting units. Sample Profit and Loss Statement is shown below.

Table 1: Sample Financial Statement

Particulars	Schedule	Code
(A) Gross Earnings		
i. Passenger		3101
ii. Parcel & Other Coaching		3131
iii. Goods		3111
iv. Sundries		3121
Total (A)		
(B) Ordinary Working Expenses		
a. Administrative		0001/5031
b. Repairs & Maintenance		0005/5031
c. Operating Expenses		0010/5031
Total (B)		
Net Operating Income/ (Expense) (A-B)		
i. Contribution to DRF		6503
ii. Contribution to improvement fund		6515
iii. State Rly. Interest of Debt on:		
a. Replacement Account		5611
b. Capital Account		
iv. Replacement of foreign loan on replacement account		7711
Net Profit/ (Loss) carried down to Profit & Loss Appropriation Account		
Note: The Figures of Net Profit/ (Loss) shown above		
Misc. Advance (Revenue) ⁸		0114
Traffic Accounts & Indian Railways ⁹		0501
Net Profit/ (Loss) as per Statement of Profit and Loss Account		
Add Return on Govt. Investment ¹⁰		
Net Figures in Finance Account - Profit/ (Loss)		

Source: Government of Bangladesh Report

21. According to Bangladesh Railway Information Book 2014, the working ratio (operation expenses divided by operation revenues) has not improved in parallel mainly due to the passenger and freight tariff that was frozen by the government for years. The operating ratio with subsidy is now at 174 in FY2013-14, slightly improved from 216 in FY2011-12, primarily because the revenues from passenger and freight transport increased by the raise in the tariff in October 2012. The revision of passenger and freight tariff is the first time since 1992. In response to this traffic increase, in FY 2013-14 revenue per passenger has increased by 41% and the revenue per freight-train-km has increased by 28% compared with FY 2011-12. Key performance ratios for Bangladesh Railway are shown below.

Table 2: Key Ratios for Bangladesh Railway

BR summary sheet

	Unit	2010	2011	2012	2013	2014
Financial Performance						
Revenue – without PSO compensation	BDT million	5,663	6,295	6,034	8,043	8,002
Revenue with PSO and Welfare Grant	BDT million	6,731	7,470	7,264	9,293	9,221
Operating Expenses	BDT million	-12,572	-14,918	-15,671	-15,624	16,017
Net Operating Deficit	BDT million	-5,840	-7,447	-8,406	-7,581	-8,015
Financial Ratios						
Operating Ratio – without subsidy	%	222	237	260	194	200
Operating Ratio – with subsidy	%	187	200	216	168	174
Performance Ratios						
Service:						
Passenger carried	million	65.60	63.54	66.14	62.60	65.00
Passenger-kilometers	million	7,305	8,052	8,787	8,253	8,135
Tonnes carried	million	2.71	2.55	2.19	2.01	2.52
Tonne-kilometers	million	710	692	582	525	677
Casualties of Passenger per million passenger originating		0.00	0.00	0.00	0.00	0.11
Coaching vehicles:						
Broad Gauge Passenger Coaches		322	312	312	312	312
Meter Gauge Passenger Coaches		1,150	930	1,144	1,160	1,164
Total System Passenger Coaches		1,472	1,242	1,456	1,472	1,476
Rates and lead:						
Revenue per passenger	BDT	44.45	50.61	53.06	79.11	75.14
Revenue per passenger-kilometer	Poisha	38.58	38.60	38.55	57.91	57.84
Revenue per tonne	BDT	428.74	447.78	438.47	543.84	565.00
Revenue per tonne-kilometer	Poisha	157.7	158.9	158.8	200.3	202.5
Average number of kilometers a passenger travelled	km	111.3	126.7	132.9	131.8	125.2
Average number of kilometers a tonne of goods travelled	km	261.6	271.2	265.6	261.3	268.4
Container Services:						
Chittagong Port to Dhaka Inland Container Depot	Tonnes thousand	306	365	360	352	350
Dhaka Inland Container Depot to Chittagong Port	Tonnes thousand	223	213	224	219	217
Total container service	Tonnes thousand	529	578	584	571	567
Employees:						
No. of employees		27,971	26,349	26,458	25,939	25,646
Cost of employees	BDT million	4,355.6	5,614.7	5,659.2	6,442.3	5,472.0

Source : Bangladesh Railway

Note: Operating Ratio equals Operating Expenses divided by Revenues. Poisha is equivalent to 1/100 of a Bangladesh taka.