



Summary of Proceedings

Fifth Meeting of the CAREC Railway Working Group

12–13 December 2019, Bangkok, Thailand

Introduction

1. At the 15th CAREC Ministerial Conference in Islamabad in October 2016, the CAREC member countries endorsed the CAREC Railway Strategy, titled “*Unlocking the Potential of Railways: A Railway Strategy for CAREC 2017–2030*” (the Strategy). The Strategy was developed to serve as a guiding document for the long-term development of CAREC railways. The CAREC strategic vision for rail transport is “*to be a mode of choice for trade: quick, efficient, accessible for customers, and easy to use throughout the region by 2030*”.

2. The Strategy was formulated by the Railway Working Group (RWG), which was set up by the decision of the 14th Transport Sector Coordinating Committee (TSCC) in Ulaanbaatar in April 2015. The RWG consists of representatives of railway agencies from CAREC member countries, supported by expert organizations such as the Organization for Cooperation of Railways (OSJD) and International Union Railways (UIC), as well as CAREC development partners. The RWG has met four times—in Tokyo in November 2015, in Bangkok in April 2016, in Tbilisi in May 2017 and in Tashkent in April 2019.

3. CAREC member countries are now working to implement the Strategy, for which ADB has mobilized a technical assistance (TA) project with the generous financial support of the People's Republic of China Poverty Reduction and Regional Cooperation Fund (PRCF), and the United Kingdom Fund for Asia Regional Trade and Connectivity (ARTCF). TA activities commenced in May 2019.

Meeting Objectives

4. The Fifth Meeting of the RWG (the Meeting) was held in Bangkok, Thailand on 12–13 December 2019 to report on progress achieved in TA implementation, to share knowledge and experience on key railway reform measures, and to agree on next steps.

5. With Uzbekistan being chair of the CAREC program in 2019, the Meeting was chaired by the representative of JSC Uzbekistan Railways (UTY). The Meeting was attended by representatives from CAREC member countries and was supported by development partners including Asian Development Bank (ADB), Committee of the Organisation for Cooperation of Railways (OSJD), International Union of Railways (UIC), and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). The Meeting agenda and list of participants are in Appendices 1 and 2.

Session 1: Report on railway sector assessments in CAREC countries

6. The TA Team Leader briefed RWG members about progress in preparation of country railway sector assessments. Country visits had been conducted between May and October 2019, and assessments had been prepared or were being finalized for 8 of the 11 countries, with the remaining 3 to be finalized within Q1 2020.

7. It was observed that most CAREC countries retain a traditional allocation of roles for railways—with a fully government-owned railway operator, and regulatory oversight and approval of tariff changes by a government ministry. Only two countries have introduced private operations and these are of limited scale. Among CAREC railways, there is considerable diversity in terms of network size, markets served and traffic levels. Railway traffic has been growing in most CAREC member countries, with total CAREC railway traffic reaching 1,345 million tons equivalent to 390 billion ton-km in 2017. However, railways have had lower traffic growth than road transport which has captured a dominant mode share in many countries. CAREC railways need to become more commercially oriented and competitive to attract traffic types other than bulk cargo, especially containerized traffic. A further observation was that many CAREC railways have serious financial problems (e.g. unprofitable and/or debt service issues). Railways need to address these problems or one day governments may stop supporting them. Initial steps would be to adopt international financial reporting standards (IFRS) and establish a modern activity-based accounting system that separately reports on the costs and profitability of each main line of business. The session concluded by highlighting the main cross-border railway corridors relevant for CAREC countries and the seven main market segments with potential for growth.

Session 2: CAREC rail transport model development

8. The RWG was informed about progress made in development of the CAREC regional transport model and the requirements for completion and maintenance of the model. RWG members were also briefed on how the model can be used to assess the potential of proposed investments. The presentation explained the model structure, the sources of the main transport model datasets from ADB CAREC GIS mapping and TRACECA, and main assumptions used for projecting the future using the socio-economic datasets, and the proposed outline for the model manual.

Session 3: Field visit observations

9. Based on the observations and discussions during country visits, the TA consultants shared some ideas for CAREC railway development. Participants recognized that railways in the CAREC region are complex, dynamic and interdependent. Therefore, besides regional cooperation, a strengthening of CAREC railways' capacity in sales and marketing of freight transport will be essential to increase sector performance.

Session 4: Interactive session on country expectations for the TA

10. Having reached the midpoint in TA implementation, member country representatives provided updates on their expectations and suggestions to ensure that the TA will realize its potential for addressing the needs of CAREC railways. Ideas were also shared regarding investment projects, knowledge products and capacity development support that could be considered for implementation in 2020.

Session 5: New technologies to streamline border-crossing railway operations

11. A presentation by UNESCAP explained the importance of electronic exchange of information between railways, and among railways and border agencies; as well as interoperability and streamlined border crossing arrangements. These are needed to facilitate and enhance the efficiency of international railway transport. Countries were informed of recent studies UNESCAP had prepared on these subjects.

Session 6: Railway project preparation facility

12. The project preparation facility offered through the TA will help the RWG to conduct two or three prefeasibility studies including assessing technical options, cost estimates, potential economic benefits and project risks (financial, technical, political, environmental, social, etc.). The main conclusion of each prefeasibility study will be to recommend whether conducting full due diligence is justified, assuming commitment of countries to borrow for project implementation.

13. At the previous RWG meeting, members endorsed the process of screening and prioritizing railway investment projects for support under the TA. In his presentation, the TA Team Leader indicated that so far 31 proposals for prefeasibility support had been received, including submissions by countries and proposals identified by the railway sector assessments. These included 8 projects for missing links, 5 to augment infrastructure capacity, 10 investments in terminals, 5 rolling stock investments and 3 other project types. These had been checked for compliance with the agreed eligibility criteria. Proposals that did not meet these criteria were often domestic rather than cross-border projects. Based on further review using the agreed selection criteria, the TA Consultants recommended 16 projects for screening using the CAREC transport model. A shortlist of 8 projects for prefeasibility study support was presented. This identified 6 priority projects for prefeasibility support. The RWG agreed on TA support for a traffic study for the PRC–Kyrgyz Republic–Uzbekistan railway project. Taking into account the existing shortlist, the ongoing work on country assessments, and the opportunity for countries to submit additional or strengthened project proposals, the RWG will select at least 2 other projects at the 6th RWG meeting.

Session 7: Case Study: Reform of Azerbaijan State Railways

14. From two presentations, RWG members learned about the comprehensive reform program undertaken by Azerbaijan State Railways (ADY). Particular attention was paid to the role of high-level management and political commitment to enable institutional, corporate, and financial management, including labor and debt-restructuring. Members were briefed on some of the key issues to be addressed in managing an organization-wide railway reform process. Valuable lessons were shared on the implementation of a series of policy actions and the management of change at working level.

Session 8: Government's relationship with the railway sector

15. The governmental institutions have a vital role to play in enabling the railway sector to achieve financial sustainability. Through, for example, multi-annual contracts for infrastructure renewal and the creation of public service obligations (PSO) contracts, the government can contribute to establishing a better financial structure for infrastructure managers and passenger service providers, and to formulating a medium-to-long term strategy for investment and maintenance financing. In many railways, insufficient revenue generation can often lead to diminished budgets for maintenance which results in maintenance of infrastructure and rolling stock being inadequate. This situation leads to a lower quality and predictability of railway services and deletion of costly railway assets. User fees can and should contribute to a more predictable income but support from governments is also needed to ensure sufficient maintenance financing. Efficient maintenance should play a key role in providing high capacity and reliable railway services.

Session 9: TA knowledge and capacity development support.

16. Knowledge and capacity development support under the TA is intended to help CAREC railways look into promising opportunities for commercialization and reform that can contribute to improved railway competitiveness and performance. The TA can also provide support to familiarize railway organizations with relevant ADB policies. It is expected the TA will finance preparation of at least 3 knowledge products or events, and provide advisory support to help at least 5 railways prepare agency-specific actions and measures on commercialization and reform to be submitted to higher authorities for approval.

17. At the previous RWG meeting, members endorsed the process of screening and prioritizing proposals for knowledge and capacity development support. In his presentation, the TA Team Leader referred to 31 proposals received to date, including submissions by countries and proposals identified in the railway sector assessments. These were mainly to prepare studies, as well as conducting workshops, providing advisory support, and training. The proposals had been checked for compliance with the agreed eligibility criteria. Those that did not meet these criteria were generally focused on domestic needs or on technical knowhow rather than commercialization and reform.

18. Based on review using the agreed selection criteria, the TA Consultants recommended a shortlist of 7 proposals and identified a further 16 proposals for possible refinement by the proposers. The RWG agreed to proceed with four proposals. These were (i) a CAREC rolling stock needs and financing facility study, (ii) best practices in establishing and operating a railway sales and marketing function (dedicated session at next RWG meeting and working paper), (iii) an explanatory note on the use of railway capacity software, and (iv) advisory support for preparation of railway commercialization, reform and investment programs in Kyrgyz Republic and Tajikistan. The RWG also expressed interest in supporting a further proposal for a study on improving the railway competitiveness of the Trans-Caspian International Transport Route, if CAREC members of the TITR can confirm satisfactory arrangements for the study to interface with the TITR Association. The RWG noted that the other shortlisted proposals, together with further new or updated proposals, would be considered for approval at the next meeting of the RWG.

Session 10: CAREC railway TA planning for 2020

19. Countries acknowledged that the TA continues to be one of the vehicles to support the RWG to accelerate the implementation of the CAREC Railway Strategy.

20. The RWG expressed general satisfaction with TA progress so far. Meetings of the RWG will take place at regular intervals in 2020. The next meeting will be on 16–17 March 2020 in Istanbul, Turkey, coinciding with the meeting of CAREC Transport Sector Coordination Committee.

Other topics

21. The representative of the Committee of the Organisation for Cooperation of Railways (OSJD) expressed interest in establishing a Memorandum of Understanding between OSJD and the CAREC RWG to support information sharing and cooperation. The CAREC Secretariat will request OSJD to draft an MOU to be presented, discussed and considered for approval at the 6th RWG meeting.

Conclusion and Appreciation

22. Participants expressed satisfaction with the consensus reached during the Meeting and endorsed the TA planning for 2020 as described above.

23. Participants thanked UNESCAP for its generous hospitality and JSC Uzbekistan Railways for its role in chairing the meeting. The delegates also expressed appreciation for the efforts of the CAREC Secretariat for organizing the meeting.