

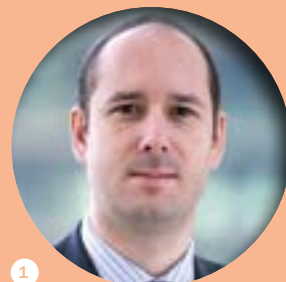


SECTOR AND GOVERNANCE REFORMS IN SUPPORT OF SUSTAINABLE, INTEGRATED AND WELL-GOVERNED RAILWAYS



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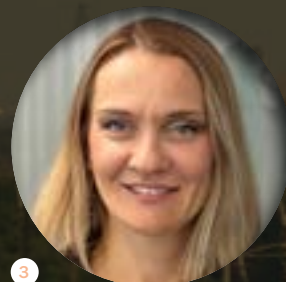
Railway transport stands as a pivotal infrastructure for modern economies, providing a vital mode of connectivity for freight, urban and intercity passenger transport, which is growing in importance across Europe.”



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As part of its transition mandate, the EBRD leverages investments to achieve policy results that enable the development of fully functioning market economies. In the Western Balkans, these investments contribute to integration with the EU single market and support regional connectivity. This article explores the link between investments in Western Balkans railways and institutional and governance reforms in this sector.

INTRODUCTION

Railway transport stands as a pivotal infrastructure for modern economies, providing a vital mode of connectivity for freight, urban and intercity passenger transport, which is growing in importance across Europe. A well-integrated and efficient rail network can provide major advantages for economic development by lowering transport costs, increasing connectivity and expanding labour markets.

Rail is particularly valuable in efforts to support greening of the economy as it is generally a more sustainable transport mode than road or air transport. This is largely due to its lower carbon footprint and potential for electrification, as well as its much greater spatial efficiency for transporting larger volumes of goods and people. The growing use of renewable energy sources further diminishes the environmental impact of railway transport, aligning with global objectives to reduce greenhouse gas emissions.

For the private sector, using railways for freight and passenger transport fits with increasingly stringent environmental regulations, but also meets growing consumer demand for sustainable transport practices. Yet rail services often struggle to be competitive with alternative modes of transport, which generally offer greater access and flexibility for most types of users.

The European Union's (EU) investment and reform packages (via the creation of the Single European Rail Area and Trans European Transport Network) are helping to address these challenges – with a broad objective of doubling high-speed rail traffic by 2030.¹ Increasingly, this creates new opportunities for direct investment and operation of rail services in European countries that can provide a valuable stimulus for new connections and competition in incumbent-led markets. For example, the requirement for mandatory

competitive tendering of public service obligations that became effective from the start of 2024 is likely to create many new opportunities.²

The potential for growth in commercial activities in and around stations and wider rail sector assets is also a growing theme – with, for example, the sale of Network Rail railway arches in the United Kingdom achieving GBP 1.5 billion (€1.74 billion) in 2018, capitalising on the growth and potential in this area with the formation of the Arch Company.

While the private sector is vital to the growth and expansion of rail services, the public sector will continue to play a crucial role by providing infrastructure, supporting socially beneficial services, regulating access and use of the network and, in many cases, operating services through state-owned enterprises (SOEs). Developing an effective balance between public-sector interests and the harnessing of private innovation and efficiency will continue to be an important feature of the rail sector.

EBRD INVESTMENTS IN WESTERN BALKANS RAILWAYS – A PUSH FOR GREATER INTEGRATION

Given the historic underinvestment in railways in many of the jurisdictions where the EBRD invests, including the Western Balkans, it is clear that the shift to rail envisioned in European objectives and elsewhere cannot be achieved without substantial investments, together with operational and governance improvements of key actors in the sector, which are in state ownership.

This backdrop provides fertile ground for linking the EBRD's investments with governance improvements in relevant railway SOEs and sector reforms – especially those related to liberalising the sector and introducing independent economic regulation to increase competition and improve use of the railway infrastructure.

¹ See European Commission (2021).

² Under EU Regulation (EC) 1370/2007.



Typical features of SOEs – such as unclear strategies, lack of proper business and investment planning, inadequate asset management and internal controls, poor monitoring of business delivery and reliance on scarce government financing – are made worse by the fact that most railway sector companies in the region are monopolies. This further weakens incentives for efficiency, customer responsiveness and efficient pricing, creating adverse outcomes for citizens and economies.

In response to this challenge, the EU has long promoted structural reform of the sector through interoperability, competition and wider sectoral efficiency. This is primarily achieved through four consecutive rail packages that create requirements for: (i) formal separation of infrastructure and rail operations; (ii) introduction of rules on open access and track access charges; (iii) technical harmonisation; and (iv) formation of an independent regulatory body to oversee key interactions in the sector.

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Recognising the critical role of sustainable transport for economic growth and regional integration of the Western Balkans, the EBRD supports EU objectives for the sector's development and has been investing considerable resources into revitalisation and better rail connectedness in the region.

Furthermore, the EBRD is the key strategic partner of the Western Balkans countries, supporting their efforts to rebuild railways and promoting the shift from road to rail as a greener mode of transport. The Bank provides investment finance and comprehensive policy support aimed at improving the governance and management of national railway companies. To date, the Bank has lent more than €1.6 billion to Western Balkans countries to finance investments in the rail sector.

In Serbia, for instance, the EBRD is providing significant funding to upgrade the railway infrastructure as part of the pan-European Corridor X, which is vital for linking Western Europe to the Balkans and potentially further to Bulgaria and Greece, making it a key trade route for the region. In particular, the funding of €2.2 billion is jointly provided by the EBRD (investment loan of €550 million), the European Union (investment grant of €598 million) and the European Investment Bank (investment loan of €1.1 billion) to modernise the 230-kilometre high-speed rail link connecting Belgrade to the country's second-largest city, Niš.³

In North Macedonia, the EBRD is financing construction of the line on Corridor VIII that connects the Adriatic Sea to the Black Sea with a €175 million loan that is part of a total financing package of up to €560 million.⁴ In Albania, the Bank is supporting the rehabilitation of the country's rail network with €136 million invested in the upgrade of two of the main lines between Tirana and Durrës and Vore and Hani i Hotit.⁵

In addition to the construction and rehabilitation of the railway lines, the EBRD also provides financing as part of other important investments in the railway sector, such as the passenger and freight operators' renewal of rolling stock, construction of depots and purchase of critical maintenance equipment.

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REFORM SUPPORT FOR AUTHORITIES AND RAILWAY COMPANIES

All these critical investments are supported by important policy technical assistance projects that aim to further develop the market, support private-sector participants and commercialise the SOEs to capitalise on the extensive assets of the rail sector. In late 2023, for example, the EBRD launched a comprehensive reform programme to support Serbian rail development. The package includes:

- supporting the capacity and independence of the Serbian rail regulator to oversee the rapidly growing market by developing a forecast scenario of the future structure of the market, capacity building in key areas required for market function and a reform plan based on comparisons with Organisation for Economic Co-operation and Development (OECD) indicators for the governance of sector regulators and selected peers
- supporting Serbian Railways Infrastructure to improve its corporate governance practices and operational efficiency. This includes implementation of best OECD and international principles and standards in corporate governance, as well as identifying opportunities to increase commercial revenues, developing and implementing best practices for asset management (linked to ISO 55,001 and ISO 9,001), together with training in project management, procurement and the use of International Federation of Consulting Engineers contracts.

³ See EBRD (2023a).

⁴ See EBRD (2023b).

⁵ See EBRD (2024).



Technical assistance to Serbia's railway sector also played a part in ensuring a platform for engagement with the authorities on an overarching reform of state ownership and corporate governance standards for SOEs. This engagement produced a gap analysis in relation to the relevant global standards (such as the OECD Guidelines on Corporate Governance of SOEs) and best practices, while providing clarity to the government on priority actions needed to strengthen the regulatory and institutional frameworks horizontally across SOEs. This, in turn, informed a state-wide Strategy of State Ownership and Management of Companies Owned by the Republic of Serbia 2021-2027, and a new law (adopted in September 2023) for governance of SOEs developed pursuant to it, which introduces a centralisation of the state's ownership function and improvements to SOE corporate governance standards.

This important reform also features in the stand-by arrangement between the International Monetary Fund and Serbia that reinforces the importance of its timely and diligent implementation.⁶ Looking ahead to the implementation of the new legislative framework, railway SOEs will also be among the

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⁶ See International Monetary Fund (2024).

first to implement the new requirements and will serve as an example to be followed by other companies owned by the Serbian state.

Similar examples can be seen in Albania, where the financing and technical support from the EBRD and the European Investment Bank will push forward the country's reform agenda by helping the railway company prepare for the operational phase of new lines by developing a framework public-service obligation in line with international best practice. The same is true in Montenegro, where financing to the infrastructure management company comes with support for improving its corporate governance and developing partnerships with vocational training schools to attract more young workers to the railway sector.

The EBRD seeks to support the implementation of the Transport Community action plans as the foundation for the reform of the rail sector and to promote “transition” in wider related areas such as the governance, operational efficiency and regulation of SOEs.



STRENGTHENING EXTERNAL PARTNERSHIPS THROUGH POLICY DIALOGUE

A core objective for the EBRD is promoting transition within its countries of operation (and clients) towards a more competitive, integrated and well-governed economic model. A key aspect of this objective is ensuring alignment and complementarity with wider institutional objectives such as the implementation of the EU *acquis communautaire* in candidate countries and supporting related wider policy initiatives from key stakeholders. Within the Western Balkans rail (and wider transport) sector, this is primarily guided by the Transport Community Treaty⁷ signed in 2017 and broader supporting institutions and policies – such as the Transport Community and Western Balkans Growth Plan.

The EBRD seeks to support the implementation of the Transport Community action plans as the foundation for the reform of the rail sector and to promote “transition” in wider related areas such as the governance, operational efficiency and regulation of SOEs. It also aims to provide capacity building and support for the reform of key market-building institutions such as the sector regulator.

Making a strong case for reforms and finding the right level of ambition and complementarity requires close collaboration with external partners such as the International Monetary Fund, the European Investment Bank, local EU delegations, the World Bank and Agence Française de Développement, which also play a key role in terms of financing and parallel technical support. The EBRD relies on all these important partnerships to identify and pursue the most useful and impactful reforms attached to its indispensable financing in the Western Balkans. 

⁷ The Transport Community is an international body involving the EU and the Western Balkans, designed to extend the EU's transport policies and market integration to its south-eastern neighbours. Its main goal is to integrate the Western Balkans' transport markets with the EU's, enhancing connectivity and compliance with EU standards, which facilitates not only regional but also continental cohesion. This integration covers all major modes of transport, including rail, which is a critical component for sustainable development and regional cooperation. Key actions are defined and monitored with the Transport Community action plans across partner countries.



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