1. Basic information:
1.1 Desiree number: PL01.01.03
1.2 Title: Polish Railways Restructuring
1.3 Sector: Transport
1.4 Location: Poland

2. Objectives:
2.1 Wider objectives:
The strategic objective is liberalisation and strengthening of the Polish rail market and adjustment of the Polish rail sector to the EU requirements and standards.

2.2 Immediate objectives:
Completion of the process of restructuring and privatisation of the joint stock company owned by the State Treasury PKP S.A. (established after commercialisation of the state enterprise Polish State Railways) resulting in separation of the rail infrastructure management from the rest of the functions currently carried out by the PKP and creation of the economic entities performing passenger and freight haulage as separated entities acting in line with the rules of the market economy.

2.3 Accession Partnership and NPAA priorities
Securing the transformation process, taken up on the basis of the “Act on commercialisation, restructurisation and privatisation of the state enterprise Polish State Railways” (of 8 September 2000) together with the projection of the potential risks will contribute to comply with the settlements of the 9.2 NPAA priority: continuation of the harmonisation of the legislation and standards in the field of transport aimed at fulfilling the requirements of the future Polish EU membership. It will contribute to the execution of a medium-term task B1 - approximation of Polish law and rules to the EU requirements on the rail transport operation and to the creation of appropriate conditions for liberalisation of the rail transport market in Poland. The project is the basis for the modification of the Polish rail transport market, also through conducting the process of the proprietary transformation, aimed at efficient operating and able to cope with the competition with the hauliers of the community. The NPAA priority contains the below given task, being the subject of this project: creation of the basis for the efficient operation of the rail transport in the Polish market able to compete with the EU carriers, that is dependent on the necessity of conducting the restrukturisation, commercialisation and privatisation of the Polish State Railways. Legislative solutions adopted in Poland, as well as the prepared executive acts take into account the principles of the “railway package” which was adopted by the Council of the European Union and is to be ratified by the European Parliament. It concerns especially such questions as: the independent infrastructure management; open access for the international freight traffic to the Trans-European Rail Freight Transport Network; extension of the directive on the licensing on all of the rail undertakings; creation of the framework for infrastructure capacity allocation and setting the charges for using the infrastructure; and establishing the rail market regulatory body. Legislative works being carried out take into account the requirements of the Directives of the new “railway package”, i.e.: Directive amending Council Directive 91/440/EEC on the development of the Community's railways; Directive amending Council Directive 95/18/EC on the licensing of railway undertakings; Directive on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification. As concerns the latter, its principles are included in the projects of the two Polish regulations: Regulation of the Minister of Transport and Maritime Economy on the detailed rules of setting out the charges for granting the rail hauliers an access to the railway lines; and Regulation of the Minister of Transport and Maritime Economy on the detailed rules of the access to the railway lines and co-operation of the rail managements.

2.4 Contribution to National Development Plan
The project is in line with the general direction of the development of the Polish Rail sector contained in the National Development Plan.

2.5 Cross-Border Impact
Improvement of the co-operation with the rail carriers in the European Union, especially as concerns the international rail transport of passengers and goods.

3. Description:
3.1 Background and justification
On 8 September 2000, the Sejm adopted the “Act on commercialisation, restrucurisation and privatisation of the public enterprise Polish State Railways”, which foresees reforming of the public enterprise Polish State Railways in three phases, as described in Table 1 below. First step is to convert the public enterprise into a joint stock company. The State Treasury will be the sole owner of this company, that will take over all of the legal liabilities of former PKP. It will enable stepping to the phase of restructuring: establishing the companies for operations, managing the infrastructure and others; re-adjusting the level and the structure of employment; financial restructuring; and restructuring of the assets.

TABLE 1: Placing of the Advisor in the process of reforming of the PKP

<table>
<thead>
<tr>
<th>Stage</th>
<th>Immediate objectives</th>
<th>According to the agreement performed by</th>
<th>Tasks of the advisor in the framework of Phare 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Commercialisation</td>
<td>Creation of a one man joint stock company owned by the State Treasury PKP S.A.</td>
<td>Minister of Transport and Maritime Economy in co-operation with the relevant bodies of PKP</td>
<td>Not involved</td>
</tr>
<tr>
<td>2. Restructurisation</td>
<td>Separation from the PKP S.A. the haulier companies and the company managing the rail lines infrastructure (PLK S.A.), change of the level and structure of employment, division into time periods and change of the level of liabilities, introduction of the subventions for the passenger haulage, regulation of possessional matters, solving the questions of the flats possession, emission of the obligations.</td>
<td>PKP S.A. under the supervision of the Minister of Transport and Maritime Economy</td>
<td>assessment of the state of the company in the initial point of the project, elaboration of the logistic assumptions, elaboration of the privatisational assumptions, development and implementation of the monitoring system and carrying out the monitoring process of the restrucurisation, signalling potential risks, continuous up to date assessment of the financial security, elaboration of the proposals for the correcting measures, simulation of the results of restrucurisating solutions, assessment of the conformity of the structural changes with the privatisational assumptions, up to date assessment of the conformity with the EU legislation.</td>
</tr>
<tr>
<td>3. Privatisation</td>
<td>Sale of the stock or acquisition of the stock resulted from raising the stock capital of the companies PKP S.A. and PLK S.A.</td>
<td>Minister of Transport and Maritime Economy</td>
<td>preparation of a conception and scenarios of the privatisation, elaboration of the rules for co-ordination of the rail transport system activity during and after the privatisation of PKP.</td>
</tr>
<tr>
<td></td>
<td>Sale of the shares of the limited liability companies created by the PKP S.A.</td>
<td>PKP S.A.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sale of the properties</td>
<td>Companies that own the properties</td>
<td></td>
</tr>
</tbody>
</table>

Commercialisation is the first step, that has already been completed. Its aim was the change of the legal form of the state enterprise to the status of the incorporated company. PKP was transformed into the joint stock company (PKP S.A.) on the 1 December 2000 and its legal status become valid from the 1 January 2001. It will enable, on the second stage of the transformation, carrying out the division into separate companies acting in the market with full regard to the competitiveness rules.

Restructurisation is a planned set of activities in the below given spheres of the enterprise’s operations: employment, finance, organisation, assets, change of the rules of carrying out the economical activities – it concerns both the haulage activities and the rail infrastructure management. Restructurising activities of the first four spheres were quite specifically set out in the Act of 8 September 2000. Elaboration of the detailed conception for the fifth sphere is the task of the group of managers of PKP S.A. The rules of performing the commercial activities will be changed so as to improve its efficiency in the conditions of relevantly changed market structure. Restructuring of the employment – important from the point of view of costs decrease – has been carried out for a year now, but it will speed up in 2001. Planned final employment of the PKP is to be obtained in 2002. The Act introduces the following basic forms of decreasing the PKP employment: special rail vacations (till the moment of retirement), earlier dismissals with financial compensations, earlier dismissals connected with pre-retirement, financial allowances paid till the day of obtaining the retirement rights. The Act also sanctions
the way of financing the consequences of introducing these solutions. According to Article 32 of the Act, the pre-retirement financial allowances paid in the years 2000-2001, single financial compensations for the employees dismissed in the years 2000-2002 and rail vacations in the years 2000-2001 will be financed by the funds gained by the emission of state obligations or credits guaranteed by the State Treasury. The exact list of people entitled to benefit the a.m. forms of deployment was prepared. The number of entitled is as follows:

<table>
<thead>
<tr>
<th>Years</th>
<th>Employment for 31 December of the given year</th>
<th>Number of people entitled to:</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>single financial compensations</td>
<td>Special rail vacations</td>
<td>pre-retirement financial allowances</td>
</tr>
<tr>
<td>2000</td>
<td>175 581</td>
<td>742</td>
<td>–</td>
<td>5 812</td>
</tr>
<tr>
<td>2001</td>
<td>152 807</td>
<td>18 970</td>
<td>3 804</td>
<td>–</td>
</tr>
<tr>
<td>2002</td>
<td>145 000</td>
<td>7 807</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>X</td>
<td>27 519</td>
<td>3 804</td>
<td>5 812</td>
</tr>
</tbody>
</table>

Experiences of restructuring the other branches of economy, especially mining industry and metallurgy, were the circumstances for launching the consultations with the trade unions aimed at creation of the programme of social shields (such as pre-retirement allowances, rail vacations and single financial compensations), that would enable the changing of the employment structure and decreasing its level and costs. Legal solutions in this scope had been preceded by the agreement with the trade unions from 29 June 2000. Besides, representatives of the trade unions participated in the works of the Parliamentary Commissions preparing the Act. The official records of settlements of the three main trade union centres and the Government states that: “Social shields for the employees of PKP, proposed in the draft of the Act have been worked out as a consensus between the employees needs and the abilities of PKP and the State. Foreseen kinds of social shields are included in the Chapter 8 of the Act. Restructuring of the employment will be carried out only with the use of social shields. There is a justification for changing the period of granting the social shields from 2000-2001 to 2000-2002”. Besides, in the chapter entitled “Participation of the employees in the privatisation of PKP” it was recorded: “the sides will continue their discussion for working out the details of creating the employees’ companies”. On the governmental level, the question of financing the pre-retirement financial allowances have been regulated by the agreement between the Ministry of Labour and Social Policy, Ministry of Transport and Maritime Economy, Managing Board of PKP and the Managing Board of the Industrial Development. The result of the agreements on the governmental and trade unions levels is i.a. launching on the level of PKP Managing Board the activities reducing social consequences of the decreasing of employment. As a result of these activities, the “Framework programme of professional activation of the employees of the enterprise PKP” was elaborated. This programme describes activities other than a.m. social shields, aimed at professional activation of the employees to be dismissed. The programme includes: Instruments for professional activation (carrying out the informational action for all of the social partners, investigation of the local labour market, training system: training for the instructors of professional and social advisory, training for the employees selected for dismissals from the PKP enterprise, professional advisory, labour exchange, activities aimed at development of the initiative of the employees being dismissed, and specific programmes). At this moment the PKP management concentrates on the negotiations with the trade unions concerning the schedule of personnel dismissals. It is a big problem from the social point of view and it requires much consideration from the side of PKP management. In respect of the social sensitiveness, the important part of the programme of employment restructurisation is the programme of professional activation. Simultaneously, there are negotiations with the banks concerning obtaining the loans for restructurisation, including social shields financing. Agreement with the European Bank of Restructuring and Development for the long-term credit of 100 million EUR for financing single financial compensations, as well as the guarantee agreement, were signed on the 11 November 2000. Financial restructuration of the PKP has been set out in the Act in a very detailed way. Overdue public and legal financial commitments are the object of restructuration. The date of repayment is postponed and is divided into 60 monthly rates. Repayment will be completed in 2005. Interests will be remitted after fulfilling the conditions settled down by the Act. Organisational restructurising of the joint stock company PKP S.A. will consist of transformation of the PKP S.A. into a holding and creating the subsidiaries of PKP S.A. (joint stock companies or limited liability companies). PKP S.A. will be divided into a number of companies: at the beginning, within 6 months since the date PKP S.A. is registered into the commercial register, there will be established cargo transporting company (PKP Cargo), passenger company and company managing railway lines – PLK S.A. - Polskie Linie Kolejowe S.A. (Polish Railway Lines joint stock company). The process of establishment of these companies will be completed at the end of June 2001. PLK S.A. will be a company of special importance. The Act precisely shows how to create the company Polish Railway Lines, which will be the
railway administration in the meaning of the existing Act on railway transport. The Act foresees the essential influence of the Minister relevant for transport matters on its activities. He approves the statutes of this company and its changes and he chooses the persons out of which the General Assembly of PLK S.A. appoints the Supervising Board. In the course of creating the companies for passenger transport, PKP S.A. must take into account the new solutions in the field of organising and subsidising the passenger carriages. The following kinds of companies are planned: for rail qualified carriages, for rail interregional and urban carriages, the Warsaw Municipal Railway (WKD) and the Fast Municipal Railway (SKM) in Gdansk. After registration of the PKP S.A., the economic entities, that are to become the incorporated companies, will go through the temporary organisational phase as the divisions of PKP S.A. However, from the beginning the infrastructure management will be organisationally and financially separated, so as to enable the equal access to the railway lines for all hauliers in conformity with the EU legislation in this field. The objective of restructurisation of the assets is clarification of the legal status of the real estates. The law regulates in a specific way the acquisition by the PKP the right for hereditary tenure of the land and ownership of the real estates possessed by the enterprise and in the same time being the property of the State Treasury and for which PKP don’t have documents of transferring them in a legally foreseen way. Enfranchisement of the real estates will be free of charge. In the present moment 74,4% of the PKP real estates don’t have the regulated legal status and in case of 28% of them the enfranchisement process is in progress. Privatisation of the companies dependent on PKP S.A. is treated by the Government as a tool for improvement of the rail transport system performance in Poland; an instrument leading to the increase of competitiveness of these entities in comparison to these which are already present on the market and those who will enter in the future; an element of improvement of the technical and technological conditions; a source of repayment of the PKP S.A. commitments; a source of financing the restructuring process; a source of funds replenishing the Employees Ownership Fund; a source of financing the rail infrastructure investments. In the first step of privatisation the shares and stocks of the companies performing the local carriages will be sold, and then the ones of the tele-infomatic company, energetic company, company performing the qualified carriages and company for interregional and urban rail carriages. Potential investors expressed significant interest in privatisation of the Warsaw Municipal Railway (WKD) and the Fast Municipal Railway (SKM) in Gdansk. Companies for regional carriages will be privatised after stabilisation of the new system of subsidising these carriages, defining the State assistance for the transport services resulting from the obligations of the public service. Railway lines will remain under supervision of the State (participation of the external investor will be possible only by the acquisition of the PLK shares after increasing the joint stock), while remaining companies will be privatised (third stage). Sale of the shares of these companies (belonging to the State Treasury or PKP S.A. or to the public corporate bodies) or stock in haulage companies and others will be done under the act on commercialisation and privatisation of public enterprises (shares belonging to State Treasury will be sold by the Minister of Transport and Maritime Economy). For ensuring the equal position of all of the rail carriers that will start operating on the market of passenger and freight transport (especially concerning the equal access to the infrastructure) The Government of Poland decided that: beginning from the 1 January 2001 the function of the rail market regulator will be performed by the Minister of Transport and Maritime Economy through the relevant Under-Secretary of State and a designated department of the Ministry. On the moment of Polish accession to the EU, the Rail Transport Office will be established as a separated body that will take over the regulatory functions. PKP – Cargo should become one of the largest freight transport companies in Europe, but there is the necessity of earlier provision of the rolling stock. The programme of restructuring the rail sector includes a new system of organising and financing the passenger haulage. The Act sets the substantial amount of subsidy for the purposes of supporting these kind of carriages. The programme of restructurering of the PKP assumes also the cease of haulage on some 6 000 km of lines having low traffic volumes and being highly unremunerative. These lines could be transferred free of charge to the local or regional authorities for putting into working order accordingly to the former assignment. The Advisor should inspire such a shape of the structural solutions in all of the fields of the PKP S.A. activity that will make possible obtaining best effects of the future privatisation and simultaneously maintain the financial security of the whole undertaking. It is necessary that the Advisor is involved in all available logistic solutions and has permanent control and monitoring measurement for implementation of the process until its very end. The Act contains the below given provisions binding the Minister of Transport and Maritime Economy and the Council of Ministers to issue the relevant executive acts, i.a.: The minister relevant for the transport matters, in agreement with the minister relevant for public finance, will determine by regulation, amongst the companies mentioned in the articles 14, 15 or 19, the companies which shares and stocks will be assigned as a security of the State Treasury liabilities by the right of warranties and guarantees mentioned in points 5 and 6; the value of the settled
security will take into account the accountable value of the companies; the Council of the Ministers will determine by regulation the way of confirming possession by PKP of the land mentioned in the article 34, point 1, including the types of documents being the evidence in this matters; The minister of Labour, in agreement with the minister of public finance and the minister for transport, will determine by regulation the procedure of transferring by the PKP and then by the PKP S.A. to the Labour Fund, the funds for financing the pre-retirement allowances; The transport minister will determine by regulation the detailed rules for division of the entitled employees into the groups in regard of the periods of employment in the PKP and PKP S.A. and for setting the number of the units of participation. He also will, in the three months from the day when the Act comes into force, publish in the Judicial and Economic Monitor and in a nationwide newspaper, the number of concessions for managing the railway lines and for performing the rail carriages and their territorial scope, taking into account the specific features of the passenger and freight haulage; The minister for transport will determine by regulation the types of buildings, constructions and devices designed for leading the rail traffic, taking into account safety conditions; the detailed rules of granting access to the rail infrastructure, co-operation of the rail managements with each other and with the rail hauliers, especially the format and information that should be included in the application and the procedure of its examination, elements of the agreement on granting the access to the rail infrastructure, responsibilities and rights of the rail managements and the rail hauliers and the conditions of concluding the agreements between the rail managements and the rail hauliers; and standards for the passenger services; the format and type of documents that should be on board of the rail vehicle with a driving gear, the way of carrying out the register and the way of marking the rail vehicles. The Council of the Ministers, in agreement with the representatives of the territorial authorities, will determine by regulation the detailed rules of setting, procedures and bodies making transfers of the budgetary subventions for the voivodship authorities and the dates, starting from which the voivodship authorities will launch the organising and subsidising the regional passenger carriages, taking into account the number of citizens of a voivodship, length of the railway lines in a voivodship and the risk of extremely high structural unemployment; the detailed rules of organising the tasks and the procedure of the choice of hauliers, being guided by the principles of fair competition and protection of the consumers' interest. Specifically it will determine: the criteria for settlement of the demand transport services, the permissible organisational forms for performing the carriages and the criteria for the assessment of the carriers.

All of the a.m. undertakings and similar activities are aimed at the efficient and effective operation of the rail transport in Poland with the full adjustment of its rules to the EU requirements contained in the new "rail package" and to the EU market rules. Co-ordination of this process so as to ensure the achieving these goals is the responsibility of the Minister of Transport and Maritime Economy. Advisory support being subject of this project is to ensure the monitoring and control of the whole process and to indicate the possible correcting solutions. For the implementation of the process of restrucrurisation some activities have already been undertaken by the MTME and PKP: relevant regulation of the Council of Ministers and the Minister of Transport and Maritime Economy (in the Ministry of Transport and Maritime Economy) have been prepared; financial and organisational scenarios (in PKP company) have been prepared. Besides the enforcing and elaboration of the necessary projects of legal acts the MTME and PKP, started engaging the consultants for solving the chosen partial issues, assuming the use of the loans of the World Bank and the EBRD. However, the lack of an advisor covering all of the issues of reforming the PKP constrains the co-ordination of the whole undertaking. Table 2 below presents the scope of technical assistance activities that have been undertaken up to this moment.
Table 2: List of the studies conducted by the Rail Department of the Ministry of Transport and Maritime Economy

<table>
<thead>
<tr>
<th>No.</th>
<th>Title of the Study</th>
<th>Source of financing</th>
<th>Foreseen cost</th>
<th>Works on Terms of Reference</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Restructuring of Polish State Railways (PKP) Assessment of the costs and benefits of the employment restructuring in PKP</td>
<td>Own means of PKP and grant of the Canadian government</td>
<td>TOR has been prepared</td>
<td>Tasks will be realised by PKP, the Booz, Allen &amp; Hamilton company in co-operation with PKP, and by the Canadian consultant company recommended by the World Bank in close co-operation with PKP. Works on the study have been launched, foreseen date of completion end of 2000.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Analysis of the rail transport market in Poland (project MSP 504/00)</td>
<td>World Bank</td>
<td>299 USD</td>
<td>TOR has been presented with the application for financing for the project on 14 January 2000.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Rules of setting up the scale of charges for the access to the rail infrastructure as an element of regulation of the transport market and its influence on the economy (project MSP/544/00)</td>
<td>World Bank</td>
<td>141.750 USD</td>
<td>TOR was submitted to the Ministry of State Treasury on the 21 March 2000 together with the application for financing of the project from the loan no. 3342-POL. The short-list of the companies was laid down and presented for acceptance o the World Bank on the 1 September 2000 t via the Ministry of State Treasury.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Rules of financing the passenger haulage and development of the rail infrastructure (project no. MSP/556/00)</td>
<td>World Bank</td>
<td>132 300 USD</td>
<td>TOR has been presented to the Ministry of State Treasury together with the application for financing for the project on the 20 April 2000. The short-list of the companies was laid down and presented for acceptance to the World Bank on the 1 September 2000 via the Ministry of State Treasury.</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Independent Advisor to the Minister of Transport and Maritime Economy for restructuring and privatisation of the PKP (A. Michon)</td>
<td>Centre for the Strategic and International Studies</td>
<td>50 000 USD</td>
<td>Mr. A. Michon started his work from January 2000.</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Feasibility study for the privatisation of the state enterprise PKP</td>
<td>JICA</td>
<td>Grant of the Japanese Government was awarded</td>
<td>TOR was elaborated and submitted in April 2000. Foreseen date of the beginning of the study – the first quarter of the year 2001.</td>
<td></td>
</tr>
</tbody>
</table>

3.2 Results

The Minister of Transport and Maritime Economy provided with the continuous up to date assessment of the progress of the process of restructuring the Polish State Railways joint stock company (PKP S.A) and at preparation of the privatisation scenarios and assistance during their implementation. Established monitoring system for permanent control of correctness of legal procedures under the act on commercialisation, restructurisation and privatisation of the Polish State Railways. The general task of the project is providing the Minister of Transport and Maritime Economy with continuous up to date advisory support concerning the restructurisation of PKP S.A., specifically: management of the restructuring process; implementation of the solutions increasing the efficiency of the specific fields of activities (improvement of the results of the companies separated from PKP S.A. joint stock company); preparation of the privatisation concepts. Synchronisation of the restructuring process with the further privatisation solutions requires performing continuous up to date monitoring of the implementation of the procedures foreseen in the relevant legal act. Therefore the monitoring system should constitute the basis for the works of the advisor, moreover taking into account the fact that all the changes will be introduced without stopping the exploitation of the railway. Continuous control should cover such fields as: worsening of the financial condition in the context of entities being reformed as well as the State Budget; conformity with EU legislation, especially the new “rail package”; improvement of the standard of transport services (volumes and quality) for the society and for commercial purposes (including
3.3 Activities
The project foresees three main groups of activities performed by the Advisor:

1. Assessment of the state of the company in the initial point of the project at the moment of the Advisor’s assignment and preparation of the initial report. The assessment should include preparation of the analyses of the organisational, legal, economical, financial and social situation of the PKP and of the state of progress and correctness of the restructuring and privatisation process.

2. Elaboration and implementation of the system of transforming process assessment, signalling of the potential risks and proposals of the corrections of the restructuring process together with the assessment of the changes in the market organisation designed by the Management Board of PKP S.A. and carrying out the improving activities (internal improvement programme). It should be connected with preparation of the partial reports for the specific subjects and interim/progress reports for the different stages of the process. It will specifically include such activities as:
   - elaboration of the logistic assumptions for carrying out the restructuring and privatisation (definition of the specific activities and mutual relations between them, necessary for the proper direction of the structural changes in the PKP);
   - elaboration of the privatisational assumptions (determination of the number of companies to be separated from the PKP S.A., scopes of their activities, rules of co-operation and the assets they should be equipped with);
   - elaboration and implementation of the project of monitoring system for the restructuring process and carrying out the monitoring, that should specifically cover:
     - the financial condition in the context of entities being reformed as well as the State Budget,
     - conformity with the European Union legislation,
     - improvement of the standard of transport services (volumes and quality) for the society and for commercial purposes (including passenger and freight haulage),
     - efficient utilisation of the properties and assets taking part in the rail transport processes,
     - operation of the railway transport system as a technically coherent one,
     - high performance in the international connections,
     - the financial security level of the undertaking itself as well as the sustaining the continuity of the financing of activities of the entities taking over the PKP functions during the restructuring process;
   - signalling potential risks, such as:
     - the risk of losing the fluency of financing of the personnel and of the restructuring process of PKP S.A.;
     - the risk of delays in the planned schedule of realisation of the reform and proper time synchronisation of the specific activities, including the responsibilities of the State,
     - the risk of disturbances in the continuity and quality of the transport operations,
     - risks connected with the potential irregularities during the restructuring of the assets;
   - conducting the simulation of the results of the restructuring solutions (in the full scope, including i.a. the impacts on the budget and availability of the rail transport in Poland);
   - continuous up to date assessment of the financial security (requirements and actual financial flows necessary for maintaining the current exploitation activity and for financing the reforms);
• elaboration of the proposals of the corrections of the process in case of the risks for obtaining the objectives of the reforming process of PKP S.A. (proposals of the new system solutions or corrections of the rules in force),

• continuous updating as well as the final assessment of the social consequences of the process of reforming of the PKP (the essential condition for the efficiency of the legally accepted reforms of the Polish rail sector is carrying out the reduction of the employment without conflicts. In obtaining this objective, not only the up to date assessment of the correctness of the adopted solutions and the changes taking place in the structure and the level of employment will be necessary, but also signalling the potential complications, with special stress on avoiding the social tensions caused by this issue; especially important could be the preparation of a project for creation of new jobs on the basis of the former PKP property and of activation of the economical and commercial activity around the PKP),

• assessment of the conformity of the structural changes with the privatisational assumptions (are the settlements of the Act of 8 September 2000 being realised properly and is it possible to accomplish its objectives and the earlier defined privatisational assumptions),

• continuous up to date assessment of the conformity with the EU legislation, especially with the new “railway package” (with both, the obligatory provisions of the relevant directives and the intentions of the general transport policy of the EU for the rail sector);

3. Preparation of a conception and scenarios of the privatisation (timing and procedures of privatisation of the specific entities and the preferred characteristic of the potential investors) together with elaboration of the rules for co-ordination of the rail transport system activity during and after the privatisation of PKP (co-ordination of the co-operation of the different entities which activities will constitute the rail transport services offer, taking into account both the technological and market aspects and including the role and activities of the rail market regulator).

Carrying out the a.m. activities will require hiring the experts of the different specialities (lawyers, economists/financial experts, engineers/rail experts, logistics experts, managers experienced in leading the big organisational undertakings in the field of transport).

There will be necessity of continuous work of the group of minimum three long-term experts till the moment of completion of the project i.e. throughout the period of two years (for a total of 72 man/months). The main tasks of long-term experts will be:

- creation and continuous operating of the monitoring system (collecting, processing and transmission of the information) and preparing the progress reports;
- continuous assessment of the correctness of co-ordination of the schedules and synergy of the organisers and participants of the transformation;
- assessment of the legal correctness of the solutions being implemented (in general terms and in terms of conformity with the EU legislation);
- controlling of the financial security of the labour and of the process of transformation of PKP S.A.;

A group of short- and medium-term experts will also be needed (assignments of duration of 3-6 months) for a total of 84 man/months. They have to be high level specialists in about 10 specific subjects listed in the planned scope of activities. Their tasks will include preparation of the expertises, analyses and on this basis partial reports on the different financial, economical, legal, technical, organisational and social aspects of the restructuring process.

National contribution: Implementation of the act on commercialisation, restructurisation and privatisation of the Polish State Railways (PKP), issuing the relevant executive acts, support of the local experts, procurement of the necessary equipment and software for the monitoring system, rooms and office equipment for the advisors.

4. Institutional framework:
The Ministry of Transport and Maritime Economy will be responsible for the overall co-ordination and implementation of the project. Solutions of the project will be used by the Ministry of Transport and Maritime Economy, Ministry of Finance and Ministry of State Treasury in the framework of their tasks concerning the supervision of the process of the reform of PKP. The sources of information will be the a.m. Ministries as well as the PKP enterprise itself and entities separated from it during the restructuring process. The final beneficiary of the information will be the Government of the Republic of Poland.
5. Detailed Budget (M€)

<table>
<thead>
<tr>
<th>INVESTMENT</th>
<th>INSTITUTION BUILDING</th>
<th>TOTAL PHARE (IV+IB)</th>
<th>NATIONAL CO-FINANCING</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polish railways restructuring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance</td>
<td>0</td>
<td>2.5</td>
<td>2.5</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0</td>
<td>2.5</td>
<td>2.5</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

The national co-financing funds for the project implementation will be available.

6. IMPLEMENTATION ARRANGEMENTS:

6.1 Implementing Agency:
Central Financing and Contracting Unit (CFCU), Mr Wojciech Paciorkiewicz (Director), Nowy Swiat 6/12 00-400 Warsaw, Poland, Phone:+48 22 661 79 27, Fax:+48 22 661 79 26. CFCU will be responsible for contracting all activities under this project and managing payments relating to performance of these activities. MTME will be responsible for overall co-ordination and supervision of all activities undertaken within the project and certification of payment requests. Beneficiary company will be responsible for nominating adequate senior officers who will take care of all actions designed for their benefit in order to ensure that those activities are carried out according to plans and achieve results envisaged.

6.2 Twinning: n/a

6.3 Non-standard aspects: Handling of tenders and contracts and realisation of the project will be strictly in line with Phare DIS procedures.

6.4 Contracts
The project foresees one contract financed by Phare for a total of 2.5M€. It will be a classical Technical Assistance contract with the advisor selected in a course of an international tender. National contribution (for an amount of 1M€) will finance such activities as: local experts supporting the contractor, procurement of the equipment and necessary software, equipped office space for experts.

7. IMPLEMENTATION SCHEDULE:
Start of design of the project – October 2001,
Start of tendering – November 2001
Start of the project activity – January 2002,

8. EQUAL OPPORTUNITY:
Male and female participation in the project will be based on the relevant standards of the European Union concerning EOE and will be assured by official announcements published in order to recruit the personnel needed for the project completion. The main criterion for staff recruitment will be appropriate qualifications and experience in similar projects, not sex or age. Both men and women will have equal opportunities and salaries.

9. ENVIRONMENT:
N/a

10. CONDITIONALITY AND SEQUENCING:
The project will be preceded by or implemented in parallel with the following studies, concerning the questions connected with the liberalisation of rail transport and restructurisation of Polish State Railways:
- Restructurisation of PKP - assessment of costs and benefits of employment restructurisation in PKP, expected in the end of 2000;
- Financial appraisal and reasons of worsening financial standing with formal financial system of PKP and its application, expected in the end of January 2001;
- Analysis of transportation markets, expected in the end of June 2001 (now - final remarks);
- Rules of modelling fees for access to the railway infrastructure as a part of regulation of transport market and its influence on the economy, expected in the end of June 2001;
- Rules of subsidising passenger operation and development of railway infrastructure, expected in the end of June 2001;
- Feasibility study for the privatisation of public enterprise PKP, JICA, completion expected in the end of 2001.

The process of transformation itself will be carried out in the three stages:
1. Commercialisation of the PKP have been completed with the end of 2000;
2. Restructurisation (different fields):
   a) of the employment – the planned final state of employment will be achieved at the end of 2002,
   b) financial – repayment of the commitments will be completed with the end of 2005,
   c) organisational – the process of establishing the companies separated from the PKP S.A. will be completed with the end of June 2001,
   d) of the assets – timing of this activity is dependent on the progress of the whole process and results of the work of the Advisor,
   e) of the rules of carrying out the economical activities – continuous process dependant on the progress of the process and results of the work of the Advisor;
3. Privatisation – there are no strict timetable elaborated in this moment, it will be one of the tasks of the adviser.

The stages of transformation of the PKP are presented in Table 1 together with the tasks of the Advisor. Before the beginning of the project the Advisor will be provided with the Terms of Reference which explicitly give him the scope of tasks also to ensure that the restructuring and privatisation of PKP are carried out with respect for the *acquis communautaire* in this sector and that regulatory aspects will be taken into account.
**Annex 1: LOGFRAME PLANNING MATRIX FOR PROGRAMME**

<table>
<thead>
<tr>
<th>Wider Objective</th>
<th>Polish railways restructuring</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>The strategic objective is liberalisation and strengthening of the Polish rail market and adjustment of the Polish rail sector to the EU requirements and standards.</td>
<td>Implemented restructurisation of the Polish State Railways in line with the EU requirements; Rail transport in Poland market able to compete with the EU carriers.</td>
<td>International and local statistics, measuring, opinions; Results of analysing and research. Consultants and their recommendations; Internal PKP statistics Progress report on Poland’s Application for membership of the EU.</td>
<td>Untimely legal regulations concerning changes in PKP, which are obligatory according to the act on commercialisation, restructurisation and privatisation of the Polish State Railways; Not delivering on time to the contractor information about relevant law requirements concerning restructurisation of PKP; Relevant input data unavailable on time.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion of the process of restructuring and then privatisation of the one man joint stock company owned by the State Treasury PKP S.A. (established after commercialisation of the state enterprise Polish State Railways) resulted in: Separation of the rail infrastructure management from the rest of the functions currently carried out by the PKP; Creation of the economic entities performing passenger and freight haulage as separated entities acting in line with the rules of the market economy.</td>
<td>Rail infrastructure management separated from the rest of the functions currently carried out by the PKP; Established and operating economic entities performing passenger and freight haulage as separated entities acting in line with the rules of the market economy.</td>
<td>International and local statistics, measuring, opinions; Results of analysing and research. Consultants and their recommendations; Internal PKP statistics Progress report on Poland’s Application for membership of the European Union.</td>
<td>Not fully implemented the act on commercialisation, restructurisation and privatisation Polish State Railways; Rail infrastructure management not fully separated from the passenger and freight haulage carried out by the PKP; Entities performing passenger and freight haulage not created as the separated entities acting in line with the rules of the market economy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results of Projects</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister of Transport and Maritime Economy provided with the continuous up to date assessment of the progress of the process of restructuring the Polish State Railways joint stock company (PKP S.A) and at preparation of the privatisation scenarios and assistance during their implementation; Established monitoring system as a tool for the Minister of Transport and Maritime Economy for permanent control of correctness of legal procedures under the act on commercialisation, restructurisation and privatisation of the Polish State Railways.</td>
<td>Minister of Transport and Maritime Economy provided with the necessary information concerning the different aspects restructuring process of PKP; Elaborated, established and operating monitoring system for permanent control of correctness of legal procedures under the act on restructurisation of the Polish State Railways.</td>
<td>Monitoring and evaluation reports; Strategic plans and programmes; Reports of experts.</td>
<td>Not fully implemented the act on commercialisation, restructurisation and privatisation of the Polish State Railways; Monitoring system of the progress of the process of restructuring the Polish State Railways for the Minister of Transport and Maritime Economy not fully operational; Minister of Transport and Maritime Economy not provided with the full scope of information on the process of restructuring the Polish State Railways.</td>
</tr>
</tbody>
</table>

**Annex 2: Implementation, contracting and disbursement schedule.**

<table>
<thead>
<tr>
<th>Project</th>
<th>Implementation Schedule (Quarterly)</th>
<th>Planning period</th>
<th>Cost Estimate (M€)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q12001</td>
<td>Q22001</td>
<td>Q32001</td>
</tr>
<tr>
<td>Implementation</td>
<td>DC</td>
<td>D/C/I</td>
<td>I</td>
</tr>
<tr>
<td>Cost Estimate (M€)</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Legend: D: design of project / C: tendering and contracting / I: contract implementation and payment

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