

# Railroad Debts Likely to Cost Taxpayers

Railways in Bosnia and Herzegovina are off track.

A look at audits and budgets for the railroads of BiH shows a system out of control, losing tens of millions of marks each year. It's a steep cost for taxpayers, many of whom don't even use trains they find slow, dirty and uncomfortable.

Yearly audits of the Ministry of Transportation and Communication for the Federation of BiH repeatedly note its failure to adequately monitor how railways spend taxpayer money.

Recent yearly audits of both the Republika Srpska (RS) Railways and the FBiH Railways warn of poor financial planning.

In the RS, the financial record keeping is so poor, filled with errors, falsifications and impossible entries, that it has become part of a criminal investigation into the system and its former managers by the Special Prosecutor's Office.

Yet neither mounting debt nor unreliable budgeting has stopped the railways from ambitious borrowing from European countries and institutions. Records indicate that together since 2001 the BiH railroads have taken on nearly €350 million in loans.

## Railways Losing Money

Railroads are losing staggering amounts of money and it looks to get worse.

Calculated over the past six years, federation railroads lost 350 million KM and RS rails 65 million. Last year alone, losses in the FBih amounted to 75,7 million KM and 15,7 million KM in the RS.

Governmental subsidies last year of 19,5 million KM from the

Federation and 27 million from the RS have kept them operating.

Most European railroads also are subsidized and lose money, especially on passenger traffic. But the severity of the problem in BiH is troubling.

For each passenger who rode on FBiH railroads, last year, the railroad earned about 16 KM and spent 44 KM – or a loss of 28 KM for every ticket sold. Reliable expense figures for the RS are not available because of its bookkeeping, but each ticket there brings in just 2.3 KM in revenue, before any expenses are deducted.

The average number of passengers per train is dropping in both entities, in part because of competition from buses, according to a 2001 study commissioned by the European Development Bank and other donors. A 2005 study by a European Union consultancy firm found again in 2005 that consumers were picking buses over trains. Buses are generally faster, more comfortable and convenient and cheaper compared to trains.

Consumers seem to have noticed. FBiH trains had a third fewer passengers per car in 2006 than the year before. In the RS, again where ticket prices are lower, the rate fell from 38 passengers per car in 2005 to 35 the next year.

BiH railroads did much better when they were part of an integrated Yugoslav network before the wars of the 1990s. The current ridership of 1.1 million falls far short of the pre-war ridership of 19 million.

Freight traffic has also dropped by two-thirds from its pre-war peak.

Unlike other European train systems, federation trains today are hauling less, not more freight – and this is the money-making part of most rail systems. FBiH trains carried 52 million KM worth of cargo in 2006, down from 56.9 million KM

the year before – a drop of about 10 percent.

‘What is obvious is that business expenses are growing far faster than the growth of income and such a trend has been present for a long period of time’ a 2006 audit of the FBiH railroads pointed out. .

RS trains did better with freight. In 2006, its trains hauled 27.4 million KM worth of goods, up from 26.3 million the year before.

Against losses or little growth in revenue from passenger and freight services, the railroads still face huge expenses. Salaries are the biggest.

FBiH railroads saw salary costs zoom from 48 million KM in 2004 to 58 million KM in 2005 and to 63 million KM in 2006. In the RS, salary costs went from 26 million KM in 2004 to 27.8 in 2005 and to 33 million KM in 2006.

### **Criminal Case against RS Railway**

Borka Cvijanović, fired as chief accountant at RS Railroads after pointing out irregularities and since rehired and made financial director, said management virtually made up numbers. Auditors found, for example, that what appeared to be a 3 million KM profit posted in 2005 was in reality a 1.7 million KM loss.

“No living soul knows how that happened or how it is possible. It was total chaos I found here,” Cvijanović said.

Criminal complaints indicate that theft added to business losses. For example, in the first five months of 2006, RS Railways used about 45,000 liters of diesel fuel for locomotives under one class of fuel usage compared to just 3,300 liters for the same period this year – a 93 percent decrease.

“The situation for 2007 is realistic. For the previous year the numbers were changed because the locomotives worked the

same amount of time in both years," said Simo Cvjetković, president of the Union of Engineers RS.

A criminal complaint in August 2006 said the records had been falsified. An inspector found that paperwork showed many locomotives were listed as using fuel on days they were idle.

## **Big Loans and Big Costs**

Both railroads have taken out loans to pay for trains, track building and repair and other costs. The BiH government has guaranteed most of these, meaning taxpayers will make payments that the entity railroads do not.

The European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) have been willing to lend money to BiH train systems in order to insure the easy movement of freight through Europe. Portugal, Spain and other donors have also lent money so that BiH rail officials could buy cars and coaches from their companies.

FBiH Railways has been especially sloppy about borrowing. In 2005, the railroad paid 2.7 million KM in late fees for loans. The cash starved railroad had to take out 19 million KM in short term loans in order to continue working.

According to a 2004 audit of the FBiH, the government failed "to take adequate measures" to force the railroad to pay its loans and ended up funding the railroad payments itself.

Auditors point out that there is no plan to deal with the new load of debt.

"The continuing cost of (debt) which in 2005 increased by 49 percent makes it clear that the company cannot fulfill the obligations they have taken on with their current level of business activity. Even though you can see some income growth, it is not sufficient to pay for the obligations," said a 2006 FBiH audit.

FBiH Railways also owes 72 million KM for salary tax and contributions for pension costs and health insurance for its workers and 5 million KM to the state in taxes.

RS Railroads owes almost nothing as it has steadily paid down debt owed on workers.

In the long term, taking new railway loans threatens to damage the country's credit rating and make it more difficult to borrow money, said Goran Filipovic, task officer for the European Commission.

Federation railway officials are engaging in one other financial practice that is undermining the worth of the railroad. To account for the loss of value of wagons and other stock over time – amortization – officials have been simply lowering the value of the companies on paper. They have subtracted the losses, in effect, from the value of state-held shares. This automatically increases the value of remaining stock held by private concerns – it has risen from 5 percent to 8 percent. If the companies are privatized – which is possible when private ownership reaches 10 percent – these private shareholders will gain at the expense of the state and the citizens it represents.

The story is in the numbers. The federation railway was valued at 1.5 billion KM at the end of 2003, but at the end of 2006, that number had dropped nearly 23 percent to 1.2 billion. In the RS, the railroad firm was valued at 508 KM at the end of 2003, versus 270 million – or 47 percent less – at the end of 2006.

So far the RS railway has not devalued stock and has handled debt by eating into money reserves.