Power Distribution

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The Implementation Completion Report for the Morocco: Power Distribution Project (Loan 2910-MOR, approved in FY 88) was prepared by the Middle East and North Africa Regional Office. The loan in the amount of US$90 million was closed on June 30, 1996, one year after the original closing date, when an undisbursed balance of US$12.79 million was cancelled. The ICR is based on contributions from the beneficiary power utilities and includes comments from some of them.

The objectives of the project were to: (i) help the power sub-sector satisfy the growing demand for electricity at least cost; and (ii) achieve financial and managerial autonomy for the Office National de l'Electricité (ONE) and the municipal distribution utilities (Régies). The first objective was supported by the project through the financing of (i) investment components to expand and rehabilitate the transmission and distribution substation capacity, and the distribution network, of ONE and five Régies, spare parts and equipment for thermal plants, and teleprotection and telecommunications equipment; and (ii) institutional strengthening components including the establishment of a high voltage hot line maintenance program, a training program, and tariff and planning studies. The second objective was addressed through the implementation of policy actions derived from studies carried out under the Public Enterprise Rationalization Loan (Loan 2820-MOR), approved in FY87.

The project largely achieved its physical objectives, but accomplished very little in improving the financial and managerial autonomy of ONE and the Régies. Overall, 85 percent of the physical components were completed, the efficiency of ONE's thermal plans was improved, most of the planned teleprotection and telecommunications equipment was installed, and the hot line maintenance program became operational. On the other hand, the planned training program was superceded by similar training offered by other donors, and the tariff and planning studies were completed but had little impact. The financial and managerial autonomy for ONE was pursued through the implementation of performance contracts, but their effectiveness was limited, since the Government has been slow in meeting its commitments. The finances of ONE and the Régies have only partially improved, with some key financial performance indicators (mainly bulk tariffs to the Régies and arrears due to ONE and the Régies by Government entities) remaining below targets established at appraisal, and coordination among the sector entities continuing to be weak. The rate of return of the project was estimated at 12.4 percent at appraisal and reestimated at 9.8 percent at completion, mainly because of lower sales and tariffs.

The Operations Evaluation Department (OED) rates the outcome of the project as marginally unsatisfactory, the sustainability as uncertain, and the institutional development impact as modest. The Bank's performance is rated as unsatisfactory. These ratings are consistent with those in the ICR with the exception of outcome, which the ICR rates as unsatisfactory. Given that the project largely achieved its physical objectives and the financial and managerial autonomy of the enterprises in the sector is improving, a marginally satisfactory rating is more appropriate.

As discussed in the ICR, the achievement of the objectives of the project was hampered by weak ownership by the Government. This was evidenced from the beginning of implementation by delays in meeting conditions for loan effectiveness, excessive slowness in raising tariffs and taking measures to reduce arrears, and the inability of the enterprises in the sector to excercise the financial and managerial autonomy that had been agreed in the performance contracts. The experience with this project reinforces the important lesson that the Bank should strictly enforce Bank guidelines for project processing (e.g., delays in loan effectiveness), and critical covenants (e.g., tariffs and accounts receivables) to avoid later

problems during implementation and an eventually unsatisfactory outcome. Another lesson is that the implementation of a performance contract will not necessarily solve the problems of the power sector unless it is supported by a broad reform of the policies and regulatory framework.

The ICR is satisfactory. It provides a well-organized discussion of the implementation experience of the project, including prospects for future project operation. It could have been improved through the provision of more complete statistics on key enterprise and sectoral performance indicators, to better document the extent to which the project's objectives for the sector have been achieved.

OED has no plans to audit this project.