



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/29/2005	
<b>PROJ ID:</b> P043725		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Railway Restructuring and Privatization	<b>Project Costs (US\$M)</b>	614	377
<b>Country:</b> Morocco	<b>Loan/Credit (US\$M)</b>	85	68
<b>Sector(s):</b> Board: PSD - Railways (100%)	<b>Cofinancing (US\$M)</b>	193	174
<b>L/C Number:</b> L4128			
	<b>Board Approval (FY)</b>		97
<b>Partners involved :</b> African Development Bank, European Investment Bank	<b>Closing Date</b>	12/31/2002	11/30/2004

<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

To support the preparation and implementation of a restructuring program that will lead to an efficient commercially oriented railway operation. The project will also contribute to financing the railway's rehabilitation and modernization program.

**b. Components**

- a) an investment program for the rehabilitation and modernization of rail infrastructure and equipment concentrating on track, traction facilities, rolling stock, signalling and telecommunication systems;
- b) studies and consulting services to prepare and implement the restructuring program and the reform of the railway pension system as well as support railway management system improvement; and
- c) a computer equipment acquisition program for management systems implementation .

The ICR additionally lists the principal items of the restructuring program as :

- Transform the Moroccan National Railway Company (ONCF) into a joint stock company;
- Attract private capital;
- Adopt a new set of regulations for the joint stock company;
- Reduce government support for public service operations; and
- Reform the railway pension system .

**c. Comments on Project Cost, Financing and Dates**

Costs: Actual projects costs at US\$377m were 61 percent of the appraisal estimate of US\$614m.

Financing: Actual Bank, Government of Morocco (GOM), and cofinanciers' contributions were US\$68m, US\$134m and US\$ 174m respectively, corresponding to 80, 40 and 60 percent of their estimated contributions at appraisal, which were US\$85m, US\$336m and US\$193m, respectively. At close, the Bank's contribution amounted to 18 percent of actual project cost.

*The above figures are drawn from Annex 2, page 18 of the ICR, (which the region has verified to be the correct ones), which do not seem to completely agree with figures in other tables in Annex 2 as well as in sections 3.3 and 5.4 of the ICR.*

Dates: The project was delayed by almost 2 years to close on 11/30/2004, mainly because the passage of pension reform and the railway law took longer than expected .

Final project cost was lower than at appraisal because the costs of the components financed by other the co-financiers were lower than expected; track renewal on the Fes -Oujda line was dropped; and plans for purchase of 100 freight cars were dropped following commercialization of ONCF's operations .

**3. Achievement of Relevant Objectives:**

The overall objective of improving the commercial operating efficiency of ONCF was mostly achieved as measured

by key outcome indicators: personnel cost/operating revenues; passenger revenues /seat-kilometers; and receipts/trains-kms, which exceeded the targets for most of the years 1997-2004; as well as labor cost/operating revenue, working ratio, debt ratio, and current ratio, all of which exceeded the targets in the Bank covenants as of end-2004. Revenue support from the government has been eliminated since 2001.

A majority of the principal items of the restructuring program that were meant to improve the efficiency of ONCF were achieved or were in the process of completion. ONCF was re-organized in mid-2002 into separate directorates along business lines (phosphate, general freight, and passenger services), and given the freedom to set tariffs. A new railway law was adopted in late 2004 to transform ONCF into the Societe Marocaine des Chemins de Fer, a joint stock company, which will be established in January, 2006. New regulations have been adopted for the company. The railway pension system has been reformed and the pension transfer completed in January, 2002 under a refinancing scheme that provides for issue of bonds by ONCF to cover most of the capital cost of the transfer. GOM provides capital grants to cover the debt service of the bonds. The process of attracting private capital does not appear to have started.

Most of the infrastructure investments were financed by the co-financiers and GOM.

The Bank's role in the project covered four components, of which the first three related to infrastructure for track renewal and acquiring computer equipment for management information systems. The fourth component covered studies and consulting services and more directly contributed to the restructuring process. Performance of the Bank-financed components was as follows:

- A. Acquisition of rail turnouts for the track renewal program: *Achieved*. All the rails and turnouts specified in the project were purchased in a timely and cost-effective manner utilized for rehabilitation and renewal of priority tracks of the core network.
- B. Infrastructure work for track renewal: *Partly Achieved*. Work on the Casablanca-Marrakesh line was completed; that on Casablanca-Sidi Kassem line was terminated by ONCF after 70 percent of the work was completed, due to problems with the contractor. The Fes-Oujda line was dropped on ONCF's request because the projected traffic was not likely to materialize due to the closure of the border with Algeria. ERR from track renewal is estimated at 18 to 29 percent, and is comparable to the ERR projected at appraisal (22 to 33 percent).
- C. Acquisition of computer equipment: *Achieved*. Personal computers and related office equipment, and ticketing machines were procured, which enhanced the operations, and financial and information management systems of the company.
- D. Studies and consultant services: *Partly Achieved*. Procurement and installation of several modules of financial software was completed, while the modules for asset management had yet to be implemented. A study on future railway organization was completed in 2001, and was used by ONCF for reorganization along commercial lines of operation. Another study to reorganize human resource management was used to improve the human resource management system in terms of recruitment, career development and productivity-linked remuneration. Development of computerized control command of freight traffic was dropped due to time and organizational capacity considerations. Development of a computer system to monitor the functioning of all information systems was not completed. Feasibility study of increasing the axle load of phosphate cars was completed and contributed to the decision to retain the existing axle load.

#### 4. Significant Outcomes/Impacts:

- The financial viability of ONCF has greatly improved and it has become a profitable operation;
- Overall improvements in ONCF's functioning and infrastructural improvements allowed ONCF to run half-hourly trains between Casablanca and Rabat, greatly improving the quality of passenger services;
- Travel time between Casablanca to Marrakesh and Fes was reduced; and
- Marrakesh-Casablanca, Casablanca-Sidi Kassem, and Fes-Oujda lines experienced increases in passenger traffic of 13 percent, 9 percent and 5 percent respectively between 1996 and 2004, despite competition from road traffic.

#### 5. Significant Shortcomings (including non-compliance with safeguard policies):

- Track renewal on the Casablanca-Sidi Kassem line could not be completed due to problems with the contractor; and
- Computerization of operational, financial and management information systems (MIS) were not yet brought to the point where their potential could be utilized.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Institutional Dev.:</b>	High	High	Results from computerizing and integrating operational, financial and management information systems have

			yet to be fully realized.
<b>Sustainability :</b>	Highly Likely	Likely	While much progress has been made in restructuring ONCF, and favorable operating results have been maintained for some years, ONCF is yet to be formally transformed into a joint stock company and demonstrate its efficiency in its new form.
<b>Bank Performance :</b>	Highly Satisfactory	Highly Satisfactory	Shortcomings in implementing computerization of MIS were not adequately anticipated.
<b>Borrower Perf. :</b>	Highly Satisfactory	Satisfactory	ONCF is yet to be formally transformed into a joint stock company; computerization of MIS has yet to yield projected results; and track renewal on Casablanca-Sidi Kassem line was not realized as planned.
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

- Strong government commitment and political will are crucial for accomplishing major reform affecting many stakeholders, such as commercialization and corporatization of parastatals;
- A holistic approach to parastatal reform, which adequately judges and accounts for institutional capacity, market-oriented pricing of services, and provision for fair compensation to labor can greatly improve the chances of success; and
- Even a relatively small WB portion of overall project cost can result in a disproportionately large contribution to project outcomes, when targeted towards crucial institutional components .

#### 8. Assessment Recommended? Yes No

**Why?** While most elements of restructuring ONCF are in place, its actual transformation to a joint stock company has yet to take place . The sustainability of the improvements in efficiency can be better verified after a few years of operation of ONCF as a joint stock company .

#### 9. Comments on Quality of ICR:

The ICR is fairly well presented and covers most issues in a reasonably objective manner . The ICR is rated Satisfactory .