ICR Review
Operations Evaluation Department

Report Number : ICRR11206

1. Project Data:		Date Posted :	04/30/2002	
PROJ ID :	P040115		Appraisal	Actual
Project Name :	Railways Rehab	Project Costs (US$M)	81.0	75.6
Country :	Cote d'Ivoire	Loan/Credit (US$M)	26.4	24.6
Sector(s):	Board: TR - Railways (100%)	Cofinancing (US$M)	54.6	50.99
L/C Number :	C2786			
		Board Approval (FY)		96
Partners involved :	CFD (France), European Investment Bank (EIB), West African Development Bank (BOAD), AGCD (Belgium).	Closing Date	06/30/2000	06/30/2001
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2. Project Objectives and Components

a. Objectives

The objective of the project was to contribute to the revitalization of the railway transport service in order to promote competitiveness and regional integration through the rehabilitation of railway infrastructure and equipment assets (The Cote d'Ivoire-Burkina railway had been recently concessioned to a private operator during project preparation and the project intended to finance investments identified by the concessionaire as necessary to rehabilitate essential physical assets).

b. Components

(a) infrastructure rehabilitation covering (i) track renewal and repair, (ii) ballasting, (iii) bridge and culvert repairs, (iv) installation of weighing equipment, and (v) building repairs
(b) equipment rehabilitation and acquisition, covering (i) rehabilitation of locomotives and rolling stock, (ii) maintenance equipment, (iii) telecommunication equipment, and (iv) computers
(c) works supervision and training

c. Comments on Project Cost, Financing and Dates

The cost shown above is for a program of railway investments comprising the Cote d'Ivoire and the related Burkina Faso railway project. The ICR did not provide breakdown for the Cote d'Ivoire project alone . At appraisal, the cost of the C.I. project was US$48.0 m. The breakdown by components, in percent, was as follows : infrastructure, 40%; equipment, 57%; supervision and training, 3%.

3. Achievement of Relevant Objectives:

The project achieved its objectives. The project was executed largely as expected . A one year implementation delay was due initially to poor relations between the government landlord company (SIPF) and later to the introduction of a new public finance management system. The infrastructure rehabilitation program was implemented almost completely (the ballast, implemented to 70 percent, was the exception). The locomotive and rolling stock program was somewhat scaled down, as necessary for the concessionaire to meet operating needs (for example, 14 locomotives were rehabilitated instead of 20, 247 wagons instead of 311). Savings in this program were used to finance a new fiber optic telecomm trunk line, the need for which had not been identified at appraisal . This line substituted for rehabilitation of the existing cable, which was found to be not cost -effective. A radio-block operating system included at appraisal was found unnecessary and was not procured . The concessionaire, supported by the project-financed rehabilitation of infrastructure and equipment, dramatically improved the operations of the railway . Operational targets were met, but financial targets were not . The improvement in railway operations contributed to the activities of the Abidjan port, which handles most of Burkina's exports and imports . The economic return (as of June 2001) was estimated at 22%, compared with 23% at appraisal.

4. Significant Outcomes/Impacts:

- The concession has eliminated the need for operating and capital subsidies that Cote d'Ivoire and Burkina Faso routinely provided their railway systems. The concessionnaire now pays business taxes, a concession fee for the use of the infrastructure, the leasing of the equipment to the governments' landlord companies, and reimburses all debt, including the World Bank loan, incurred after the concession became effective .

- Freight traffic, consistly mainly of international traffic between the two countries, increased from 451 million ton-kilometers in 1995/96 to an estimated 597 million ton-km in 2001, slightly above appraisal projections.
- A reduction in personnel (from 1840 at start to 1,639 in 2001) coupled with traffic increased led to significant increases in productivity, from 330 thousand traffic units per employee in 1995/96 to 488 T.U./employee in 2001.
- Operating revenue increased from CFAF 13,437 billion in 1995/96 to CFAF 20,045 billion in 2001.
- The concession agreement worked surprisingly smoothly, compared with the experience elsewhere with railway concessions. As reported by the Borrower, the project through the Bank supervision missions appeared to have played a major role in helping sort out conflicts between the landlord company (SIPF, that owns the railway infrastructure and equipment) and the concessionaire company (SITARAIL, that leases the equipment from SIPF and pays a toll for the use of the rail track)
- While SITARAIL had to reduce staff in order to improve productivity and make the operation commercially viable, the staff retained by SITARAIL now have better salaries competitive with the private sector, and their working conditions have substantially improved (air conditioning, medical plan benefit with HIV/AIDS sensitization program, etc)
- The operation under one single concessionnaire of the I .C. - Burkina railway is credited with being instrumental in the railway retaining international traffic when the relations between the two countries cooled down in 2000-2000, in the context of political changes in Cote d'Ivoire.

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

- Despite the significant improvement in operations, productivity and operating revenue, the financial situation of the concessionnaire is weak This is due mainly to unexpected increases in costs, especially fuel prices and concession fees.The working ratio (working costs as percent of operating revenues) was 102 percent in 2001, against a forecast of 65 percent. Further, the company will need to be recapitalized; the extension of the concession from 15 to 30 years years should help in this process.
- SITARAIL failed to overturn the long-standing decline in the transport of passengers. In fact, the decline continued during the project. In 2001, passenger traffic was estimated at 134 thousand passenger-kilometer, which was about 10 percent below the level in 1995, and only 36 percent of the traffic forecast in the appraisal report (373 thousand pass-km). The ICR does not explain the reasons for this decline. The appraisal report had anticipated a decline in passenger traffic in the first two years of the concession due to planned increases in tariffs and the closing of unprofitable domestic services, but an increase in future years because of better quality of services.
- Performance of the landlord company SIPF was weak, and its operating costs were higher than expected . SIPF staff intruded in the operations of SITARAIL and hampered their management .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	High	High	
Sustainability :	Highly Likely	Likely	The rather weak financial performance precludes giving sustainability the highest possible rating.
Bank Performance :	Highly Satisfactory	Highly Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		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:

Two of the lessons mentioned in the ICR are of significant, broad interest in the context of privatization :

- The problems between SIPF and SITARAIL suggests that creation of a landlord company with a role in financial intermediation, procurement and monitoring of the concession agreement, may not be an efficient arrangement, both in terms of cost to the government and operations by the concessionaire .
- A timely government contribution (donor-funded or otherwise) to finance large and costly infrastructure is essential to support the launching of a concession such as for railway services, which are essential for the economy, but are capital intensive and not highly profitable .

8. Assessment Recommended? ● Yes ○ No

Why? After 6 years of operation, the concession agreement seems to be working much better than most other railway concessions. It is very important to learn from this experience, especially about bid and contract design, and the rapport between the concessionnaire and the government . The problems with the landlord company are of special interest.

9. Comments on Quality of ICR:

While it covers well most aspects of the project, the ICR does not provide the correct cost table of the project, since it shows only the cost of the combined program covering both the Cote d'Ivoire and the Burkina railways . The SAR of the C.I. project showed both costs, the project and program . The ICR also does not elaborate on the railways' failure to meet the forecast of passenger traffic and its implication for future financial performance .