PROJECT PERFORMANCE ASSESSMENT REPORT

CÔTE D’IVOIRE

RAILWAY REHABILITATION PROJECT
(CREDIT 2786-IVC)

March 12, 2003
Currency
Currency Unit = CFA Franc (CFAF)
(Exchange rate effective October 2002)
US$1.0 = CFAF 670
CFAF 1 million = US$1,493
SDR1.0 = US$1.323

Fiscal Year of Borrower
Government: January 1 to December 31

Weights and Measures
Metric System

Abbreviations and Acronyms
BOAD Banque Ouest Africaine de Développement/West African Bank
AFD Agence Française de Développement
CI Côte d’Ivoire
EIB European Investment Bank
ERR Economic rate of return
GDP Gross domestic product
ICB International competitive bidding
ICR Implementation Completion Report
IDA International Development Association
MITC Ministry of Infrastructure, Transport and Communications
RAN Régie des Chemins de Fer Abidjan-Niger
SAR Staff Appraisal Report
SCFB Société des Chemins de Fer du Burkina
SICF Société Ivoirienne des Chemins de Fer
SIPF Railway Patrimony (landlord) Company – Côte d’Ivoire
SITARAIL Concessionaire Operating Abidjan-Ouagadougou Rail System
SOE State-owned enterprise
SOPAFER-B Railway Patrimony (landlord) Company – Burkina Faso

Director-General, Operations Evaluation : Mr. Gregory Ingram
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Manager, Sector and Thematic Evaluation : Mr. Alain Barbu
Task Manager : Mr. Binyam Reja
MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Performance Assessment Report on Côte d’Ivoire Railway Rehabilitation Project (Credit 2786-IVC)

Attached is the Performance Assessment Report (PAR) for the above project, for which a credit in the amount of SDR13.5 million (US$20 million equivalent) was approved on November 28, 1995. The project closed on June 30, 2001, one year behind schedule. The final total disbursed was SDR12.5 million, or 93 percent of the original amount. SDR1.0 million was canceled. Cofinancing was provided by France, Belgium, the European Investment Bank (EIB), and the West African Development Bank (BOAD).

The project’s objective was to contribute to the revitalization of railway transport service in order to promote competitiveness and regional integration through the rehabilitation of railway infrastructure and equipment. Specifically, the project was designed to support the concessioning to a private operator of the state-managed railways linking the port of Abidjan with Ouagadougou in Burkina Faso, and to act as a catalyst in attracting other investors. This concessioning was the first for a railway in Sub-Saharan Africa.

The project consisted of three components: (a) infrastructure rehabilitation (track renewal and repairs, ballasting, bridge and culvert repairs, installation of weighing equipment, and building repairs); (b) equipment rehabilitation and acquisition (locomotives, rolling stock, maintenance and telecommunications equipment, computers), and (c) training.

The project was part of a program that also involved the connecting railway in Burkina Faso. A parallel World Bank transport project for Burkina provided support for that part of the program. The concessioning process was launched in February 1993, bid award took place in July 1993, and the Concession Agreement, after extensive negotiations, was signed in December 1994.

The project objective was achieved. The Abidjan-Ouagadougou railway is well managed, carries much more traffic than before privatization (freight traffic, the main revenue generator, has tripled), and its operational performance has improved (although rail service within Côte d’Ivoire has practically stalled since September 2002 due to the ongoing conflict). Thanks to the project-financed investments, the railway’s infrastructure and equipment are in better condition. Staff productivity has improved, exceeding appraisal expectations, in part because of the traffic increase, and in part because the railway’s staff today is 50 percent smaller than its pre-privatized size. The concessioning process paid special attention to providing adequate compensation to staff declared redundant. This included a 14-month termination grant, partially financed under bilateral French assistance, immediate pension irrespective of age, and housing for many of the redundant personnel. Benefits for the staff retained by the private operator also improved markedly, including more vacation time, better medical insurance, and better working equipment and conditions. The private operator also is piloting an HIV/AIDS awareness program under an ongoing Bank’s HIV/AIDS project for Sub-Saharan Africa.
The concessioning operation has resulted in the elimination of budget subsidies to the railways. The concessionaire runs freight as well as passenger services on a fully commercial basis. The two governments are shareholders (15 percent of the capital each) and should receive revenues from this operation. Railway workers also are shareholders. The railway became a profit-making enterprise in 2001, and after two more years of profits, stock will be offered to the public via Côte d’Ivoire’s exchange. The economic rate of return of project-financed investments is estimated at 22 percent, about the same as at appraisal.

As a pilot experience in the region, there were some issues with the design of the concession. The most important of these was the creation of a government-owned railway patrimony company (the “landlord” company), from which the private operator leases infrastructure and equipment. The arrangement proved cumbersome, although it has improved since the start of the concession. The Concession Agreement was renegotiated, extending the concession from 15 to 30 years, creating an Investment Fund, and adjusting the level and allocation of the fees paid by the concessionaire.

The PAR rates the project outcome satisfactory, institutional development high, and sustainability likely. The PAR further rates Bank performance highly satisfactory and borrower performance satisfactory. Sustainability is rated likely rather than highly likely because the railways’ financial performance has been weaker than expected, profitability took longer to achieve, and some uncertainty exists about future traffic demand.

Several lessons emerge from this project:

- The design of railway concessions should aim to avoid establishing government-owned patrimony/landlord corporations. Such corporations tend to interfere with the management of the concession without clear gains for the government. Selling, rather than leasing the equipment to the concessionaire leads to a cleaner concession arrangement, and further obviates the need for a patrimony corporation.

- The Bank, with its knowledge of worldwide experience with railway concessions, has an important role to play in helping countries design and implement railway concessions and contributing finance, especially in regions like Sub-Saharan Africa, where attracting private investors to the infrastructure sectors is especially difficult.

- Renegotiation of infrastructure concessions should be avoided or deferred as much as possible, since it undermines transparency and credibility of the concession system. Concession agreements ideally should define the circumstances under which renegotiations will take place, and the process to be followed.

- The delicate issue of staff redundancy in infrastructure concessions can be effectively managed by adequately compensating staff made redundant, providing pensions under exceptional early retirements and outsourcing company work to displaced staff.

Attachment
OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank’s work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

- **Relevance of Objectives:** The extent to which the project’s objectives are consistent with the country’s current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Possible ratings: High, Substantial, Modest, Negligible.

- **Efficacy:** The extent to which the project’s objectives were achieved, or expected to be achieved, taking into account their relative importance. Possible ratings: High, Substantial, Modest, Negligible.

- **Efficiency:** The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. Possible ratings: High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

- **Sustainability:** The resilience to risk of net benefits flows over time. Possible ratings: Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

- **Institutional Development Impact:** The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. Possible ratings: High, Substantial, Modest, Negligible.

- **Outcome:** The extent to which the project’s major relevant objectives were achieved, or are expected to be achieved, efficiently. Possible ratings: Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

- **Bank Performance:** The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

- **Borrower Performance:** The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.
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## Principal Ratings

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<th>ICR*</th>
<th>ES*</th>
<th>PPAR</th>
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<td>Satisfactory</td>
<td>Satisfactory</td>
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<tr>
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<td>Likely</td>
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<td>High</td>
<td>High</td>
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<td>Highly Satisfactory</td>
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<td>Satisfactory</td>
<td>Satisfactory</td>
</tr>
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</table>

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The Evaluation Summary (ES) is an intermediate OED product that seeks to independently verify the findings of the ICR.

## Key Staff Responsible

<table>
<thead>
<tr>
<th>Project</th>
<th>Task Manager/Leader</th>
<th>Division Chief/ Sector Director</th>
<th>Country Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Completion</td>
<td>Brigitta Mitchell</td>
<td>James Wright</td>
<td>Olivier Lafourcade</td>
</tr>
<tr>
<td></td>
<td>Jean-Noel Guillossou/ Claude de Isaac</td>
<td>Maryvonne Plessis-Fraissard</td>
<td>Mamadou Dia</td>
</tr>
</tbody>
</table>
Preface

This is a Project Performance Assessment Report (PPAR) on the Côte d’Ivoire Railway Rehabilitation Project (Credit 2786-IVC), for which a credit in the amount of SDR13.5 million (US$20 million equivalent) was approved on November 28, 1995. The project closed on June 30, 2001, one year behind schedule. The final total disbursed was SDR12.5 million, or 93 percent of the original amount. SDR1.0 million was canceled. Cofinancing was provided by France, Belgium, the European Investment Bank (EIB), and the West African Development Bank (BOAD).

The PPAR was prepared by the Operations Evaluations Department (OED) based upon a review of the President’s Reports, Staff Appraisal Report (Report no. 14919, October 10, 1995), Implementation Completion Report (Report no. 23573, January 31, 2002), transcripts of Board Proceedings, project correspondence files, Bank documents on other transport projects, and other Bank and non-Bank materials. In June 2002, an OED mission visited Côte d’Ivoire to discuss the project with relevant government officials, beneficiaries, and representatives from the private sector, labor and trade organizations, and cofinanciers. OED also discussed the project with Bank staff in charge of the project at headquarters. The kind cooperation and invaluable assistance from all the people consulted are gratefully acknowledged.

A PPAR of a Bank project in Burkina Faso that supported the Burkina portion of the Abidjan-Ouagadougou railway is being issued separately.

The assessment agrees, with one minor exception, with the ratings of the implementation completion report, and confirms the OED’s assessment of the ICR. The PPAR adds value to the ICR by focusing on the design of railway concessions, and elaborating on lessons learned. The project supported the first railway concessioning to a private operator in Subsaharan Africa, and the important lessons it offered were of significant interest for a PPAR.

The ongoing conflict in Côte d’Ivoire is likely to affect performance of the railway in the near term, and may jeopardize some of the prospects described in this report.

Following standard procedures, copies of the draft PPAR were sent to the relevant government officials and agencies concerned for their review and comments. The comments received are attached in Annex B.
1. Introduction

1.1 As was the case in practically all of Sub-Saharan Africa, the 1980s for Côte d’Ivoire was a “lost decade” for economic development. Moreover, the decline continued during the early 1990s. At the peak of the crisis, the 6-year period 1987–93, the country’s GDP fell more than 30 percent.

1.2 Key factors in the economic decline were an overvalued currency, the collapse of cocoa and coffee prices, the country’s key exports, and the increasing inefficiency of a large public enterprise sector. Early in the 1990s the government sought to reduce the heavy weight on the budget posed by deficit-ridden state-owned enterprises (SOEs). The government strategy focused on privatization of the SOEs and included improvement of incentives for private investment and creation of more private national shareholders.

1.3 In practice, it was the devaluation of the CFAF in January 1994 that marked the real start of economic recovery as it removed uncertainty and significantly restored investment confidence and competitiveness. This made it more attractive for private capital and operators to become interested in the SOEs being offered for privatization.

1.4 Railways are not generally viewed as obvious candidates for privatization. Even less attractive are railways that carry relatively small volumes of traffic, such as the 1,250-kilometer line connecting the port of Abidjan in Côte d’Ivoire with Burkina’s capital Ouagadougou. This had been a well run and financially profitable railway (the Régie Abidjan-Niger, or RAN, railway) until the mid-1970s. From that time, poor management, badly chosen investments, ill-conceived emphasis on low-priced passenger services and increasing road competition had wreaked havoc with the railways’ efficiency and finances. In 1989, for political reasons, the RAN was split into two separate state-owned companies. This separation exacerbated the operating inefficiencies of the line, diversion of traffic to the roadways, and worsened financial performance.

1.5 Faced with this crisis, and defying conventional wisdom, the two government-owners in July 1992 decided to reunify and privatize railway operations on a concession basis. This was the first time in Sub-Saharan African, and one of the early experiences anywhere in the developing world, with concessioning a railway to private operators.

1.6 IDA initially supported the launching of the railway privatization process through the Côte d’Ivoire Privatization Support Project and the Burkina Transport Sector Adjustment/Investment Program (Credit 2332-BUR). Advice provided by IDA (and cofinancier’s) staff were instrumental in the design of the concession. The project under review provided further support, especially to finance the rehabilitation of railway assets, and help with the design of the concession contractual arrangements.

1.7 After having practically halted most lending for railways in the mid-1980s, this project was also one of the first Bank operations signaling the refocusing of railway lending toward privatization and concessions. It was also the first Bank project in the transport sector in Côte d’Ivoire since the Bank had shifted its lending focus toward policy-oriented operations in the mid-1980s.

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1. This project, approved in May 1992, intended to “assist the government reduce its holdings and alleviate the recurrent administrative and financial burden of the SOEs.”

2. **Project Objectives and Design**

2.1 The project’s objective was to contribute to the revitalization of railway transport service in order to promote competitiveness and regional integration through the rehabilitation of railway infrastructure and equipment. Specifically, the project was designed to support the concessioning to a private operator of the state-managed railways linking the port of Abidjan with the Burkina Faso border, and to act as a catalyst in attracting other investors.

2.2 The project consisted of three components: (a) infrastructure rehabilitation (track renewal and repairs, ballasting, bridge and culvert repairs, installation of weighing equipment, and building repairs); (b) equipment rehabilitation and acquisition (locomotives, rolling stock, maintenance and telecommunications equipment, computers), and (c) training.

2.3 The project was part of a program that also involved the connecting railway in Burkina Faso. The program financed rehabilitation of railway equipment owned by railway landlord companies in Côte d’Ivoire and Burkina (SIPF and SOPAFER-B, respectively). A parallel Bank transport project for Burkina provided financing and supported the Burkina side of the railway. The concessioning process was launched in February 1993, bid award took place in July 1993, and the Concession Agreement, after extensive negotiations, was signed in December 1994. The project under review was processed in parallel with the concessioning process.

2.4 The project involved substantial cofinancing. Complementing IDA were five other financiers, including the railway concessionaire, that were expected to provide 58 percent of total project cost ($28 million out of $48 million). Reimbursement of the IDA credit funds was the responsibility of the government and of SIPF, although SITARAIL was expected to fully cover these costs through a payment to the government of the earmarked part of a concession fee.

2.5 The project’s investment program was based on consultants’ studies. However, the cost estimates were prepared by the concessionaire SITARAIL.

3. **Implementation**

3.1 Start of project implementation was delayed by the borrower’s failure to meet the effectiveness conditions for the French (AFD) loan, which automatically delayed effectiveness of the IDA credit due cross-effectiveness clauses between IDA’s and the cofinanciers’ operations. This was the main reason the project’s closing date was delayed by one year (to June 30, 2001).

3.2 By the start of project implementation in June 1996, the railway concession had been in operation for about half a year. In the early stages, friction between the operating company (SITARAIL) and the landlord companies in Côte d’Ivoire (SIPF) and in Burkina (SOPAFER-B) created some implementation problems. Selection of investments and management of assets used by SITARAIL and SIPF’s oversight role were among the most contentious of these problems. The friction diminished over time as trust developed between the two companies. However, the friction is likely to be structural rather than occasional, since SIPF’s mandate appears to be incompatible with an efficient management of the operating company. This issue is discussed in detail in the next section (paras. 5.8–5.14).

3.3 Project components were implemented as follows:

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3. A PPAR for the Burkina transport project is being issued separately.
• Infrastructure investments were implemented essentially as designed (except that the ballasting program was reduced by about 30 percent).
• Equipment investments were scaled down as the needs of the concessionaire appeared to be less than initially anticipated (line locomotives, shunting locomotives, freight wagons, and passenger wagons were reduced by some 30 to 50 percent). On the other hand, the concessionaire found that a fiber-optic telecommunications line was urgently needed, and it was procured with financing from savings on equipment.
• Training was carried out by SITARAIL, for management and for technical personnel.

4. Performance

The concessionaire improved the railways’ performance in all areas. However, achievement of SAR targets was mixed, as discussed below.

Table 3.1: Côte d’Ivoire – Burkina Railway Summary Results 1994–2001

<table>
<thead>
<tr>
<th></th>
<th>1994 (Base Year)</th>
<th>1996 (Year 1 of Concession)</th>
<th>2001 (Actual)</th>
<th>2001 (Actual/SAR)</th>
<th>Better (B)/ Worse (W) than SAR target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic - Freight ton-kilometers (million)</td>
<td>242</td>
<td>451</td>
<td>699</td>
<td>1.2</td>
<td>B</td>
</tr>
<tr>
<td>Traffic-Passengers pass-km (million)</td>
<td>250</td>
<td>158</td>
<td>182</td>
<td>0.49</td>
<td>W</td>
</tr>
<tr>
<td>Staff</td>
<td>1,630</td>
<td>0.90</td>
<td></td>
<td></td>
<td>B</td>
</tr>
<tr>
<td>Productivity (000 traffic units/staff)</td>
<td>540</td>
<td>1.07</td>
<td></td>
<td></td>
<td>B</td>
</tr>
<tr>
<td>Operating Result, gross (CFAF billion)$^a$</td>
<td>(0.97)</td>
<td>6.76</td>
<td>0.80$^b$</td>
<td></td>
<td>W</td>
</tr>
</tbody>
</table>

*Sources: ICR, Strong paper, SITARAIL

$^a$/ Operating Revenue minus operating expenses.

$^b$/ Based on constant CFAF.

Traffic

4.1 Freight traffic performance improved (Figure 4.1) thanks to a combination of better service, reinvigoration of the economy following the CFAF devaluation (6 percent annual GDP growth between 1995 and 1999), and deteriorating trucking service stemming from increased road barriers and controls. The largest gain was in petroleum traffic, where the railway benefited from government policy that all Mali-bound petroleum imported via the port of Abidjan be carried by railway to Bouake, and loaded by trucks there. This measure was put in place because much of the tax-free, Mali-bound petroleum ended up being diverted and sold in Abidjan. In 2001, SITARAIL’s freight traffic was 1.2 times the appraisal forecast.

4.2 Passenger traffic continued to decline (Figure 4.1) for most of the concession period to date as a result of increasing competition from international (Burkina and Mali) and domestic bus services, coupled with a reduction in the railway services offered, including reduction in the number of trains and the closure of passenger stations. According to the concession contract, SITARAIL has full freedom to manage passenger services, including reduction of services and tariff changes. Passenger traffic recovered somewhat in 2001 mainly due to deterioration of the competing bus service, and reached about 50 percent of the SAR forecast.

4. ICR, Privatization Support Project.
Operations

4.3 SITARAIL improved productivity in practically all areas of operation. Staff productivity in 2001 was better than projected in the SAR. The same happened in other areas. In 2001, locomotive availability, which had been in the 60 to 70 percent range before the concession, had surpassed 90 percent, and the turnaround time for freight wagons was 8 days, or about half what it had been. Similarly, SITARAIL significantly increased the safety of its operations, notably reducing derailments.

Finance

4.4 After large losses before privatization, SITARAIL gradually improved the railways’ finances, and 2001 was the first year with a positive net operating result. The SAR expected this to happen in 1999. The worse than expected financial performance is due to (i) higher than expected operating costs, due to delays in carrying out cost-reducing investments for example, to reduce the substantial number of bad track sections operated with slow speeds, and (ii) lower than expected operating revenues, especially because of low passenger demand. In 2001, passenger revenues accounted for only 17 percent of operating revenue, compared to 27 percent estimated in the SAR. Although less than before, the railway under its concessionaire SITARAIL continues to lose money on passenger service, and this an incentive for SITARAIL to reduce service and cut costs. Should the provision of passenger services fall below an acceptable level, of which there is yet no evidence, an option would be to establish a PSO for well identified passenger services, which would require an amendment to the concession.

Table 3.2: Côte d’Ivoire – Burkina Railway Summary Financial Results 1993–2001

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1996 (Year 1 of Concession)</th>
<th>2001 (Actual)</th>
<th>2001 (Actual/SAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (Billion CFAF) a/</td>
<td>13.9</td>
<td>18.5</td>
<td>23.7</td>
<td>1.23</td>
</tr>
<tr>
<td>Expenses (Billion CFAF) a/</td>
<td>16.9</td>
<td>19.5</td>
<td>16.9</td>
<td>1.30</td>
</tr>
<tr>
<td>Operating Result (Billion CFAF) b/</td>
<td>(3.0)</td>
<td>(1.0)</td>
<td>6.8</td>
<td>0.80</td>
</tr>
<tr>
<td>Working Ratio (percent) b/</td>
<td>122</td>
<td>105</td>
<td>0.71</td>
<td>1.96</td>
</tr>
</tbody>
</table>

Sources: ICR, SITARAIL monthly reports

a/ 1993 data is for the Côte d’Ivoire and the Burkina railways combined.

b/ Working expenses over operating revenues
Labor Problems

4.5 The Concession Agreement fixed SITARAIL’s staff at 1,815 (or about half the total SICF and SCFB staff in 1994), and allowed SITARAIL to select its personnel from among the two railways’ staff. Redundant staff were compensated under a program financed in part by AFD. Redundant staff received 14 months’ salary as termination, and were eligible for immediate pension irrespective of age, a significant exception to pension policies. In addition, some 600 redundant staff were allowed to keep the housing provided by SICF.

4.6 Staff retained by SITARAIL kept the SICF salary, but received improved benefits, notably better medical insurance coverage and increased vacation days. Working conditions also improved. SITARAIL has been selected as one of the pilot enterprises under the ongoing Bank-financed HIV/AIDS project, and has introduced an HIV/AIDS awareness program. Labor problems are further discussed in the Appendix to this report.

Suspension of Bank Disbursements

4.7 The Bank suspended disbursements for all lending to Côte d’Ivoire in November 2000, following a military coup and civil disturbances during a presidential election. The suspension was revoked at end-November 2001, one month after closing of the railway project. During the suspension period, SITARAIL carried out investments in telecoms for about CFAF 400 million. Since the project had already closed when the suspension was lifted, the Bank could not process the reimbursement request. This unfortunate situation had a negative financial implication for SITARAIL.

5. Issues in Railway Concessioning

5.1 This chapter focuses on key, recurrent issues in railway concessions and discusses the SITARAIL concession in that context.

Privatization Approach

5.2 The approach taken by the Ivorian and Burkina governments to privatizing railway operations had two main conditions. First, all infrastructure and equipment was to remain the property of the government, under the responsibility of newly created “landlord” companies (SIPF in Côte d’Ivoire and SOPAFER-B in Burkina). Second, railway services were to be operated by one single concessionaire, serving both domestic traffic and the international traffic between the two countries. In general, concession of public assets to a public operator may or not include sale of assets to the concessionaire. In practice, governments often wish to retain ownership of the infrastructure as a strategic asset, but are prepared to divest the equipment. The SITARAIL concession, which did not include the sale of assets, corresponds to an “affermage” or leasing arrangement. Leasing of equipment is a complicated arrangement because of the need to carry out a detailed inventory and inspection of the leased assets, and to monitor the inventory over the period of the concession.

Bidding Process

5.3 The privatization/concession process was done through international competitive bidding (ICB). The bid award criterion was simple: maximum income for the government, subject to meeting bid conditions. As a pioneer experience in railway concessioning in Africa, prospects were not good.
for finding private entrepreneurs interested in obtaining the concession. Yet, the ICB competition yielded two bids, one of which was deemed to be responsive to the bid conditions. The winning bid was led by a France-based, multinational transport/logistics company. The losing bid was a consortium of seven companies, including railway consultants, shippers, and equipment providers.

5.4 A significant weakness in the bidding process was the lack of a draft Concession Agreement within the bid documentation. This meant that all contractual conditions between the States and the operating company were open to negotiations. This situation was bound to lead to long and complicated negotiations, as it actually happened.

5.5 The Data Room for the bidders contained historical traffic and financial data, and some general ideas about possible new traffic items (such as manganese from Burkina, which did not materialize). There were no country commitments regarding either traffic levels or individual traffic commodities. Overall, the operating company found the data room to be of little use in preparing the bid.

**Capital Structure**

5.6 Deciding the capital structure of the concessionaire (SITARAIL) took months of negotiations. It turned out to be a complex structure, especially in view of the relatively small size of the railway company. Some shareholders were represented both directly and indirectly through participation in other shareholder companies. At the insistence of the government, parties to the losing bidder became shareholders in SITARAIL’s capital. The final capital structure was as follows:

- Sixty-seven percent is owned by the strategic investor (SOFIB). In turn, a controlling group (SECAF), which consists of the two main freight-forwarders in the region (SAGA and SDV), owns 64 percent of the strategic investor. The remainder is owned by two railway consulting groups (SOFRERAIL, 10 percent, and TRANSURB, 6 percent), a shipping company (MAERSK, 8 percent), and an Ivorian investment group (SICC, 12 percent).
- Thirty-three percent is divided among the Côte d’Ivoire and Burkina Faso governments (15 percent each) and SITARAIL staff (3 percent).

5.7 Under the Concession Agreement, SITARAIL is expected to offer 16 percent of its capital to private investors through the Abidjan Stock Exchange. However, for a company to be able to accede to the exchange, it must show profits for three consecutive years. SITARAIL only had positive financial results in 2001 and therefore is not yet able to offer stock through the exchange.

**Landlord Company**

5.8 Probably the most critical decision in the design of the privatization was the creation of a landlord company. Experience so far indicates that it was not a good decision.

5.9 **Genesis.** Landlord companies that retain ownership of all the operating assets of the privatized companies are not common. Concession arrangements are generally of two types. Under one type (mostly found in Europe), a separate infrastructure company is created and services are provided by several competing transport companies. Under another type (mostly found in Latin America), the whole railway network is broken up regionally, with the infrastructure and equipment leased or sold to the

5. This was noted by the Bank project team during project preparation, in memo by K. Budin of March 5, 1993.

6. The Ministry of Transport continues to support the concept of landlord (or patrimony) corporation, although with some revisions. See Annex B.
private operator. In the case of the Abidjan-Ouagadougou railway, the landlord company concept originated in the need for some cofinanciers to find a financial intermediary, backed by physical assets, that could be the recipient of the funds. Implicit in the notion of a landlord company was responsibility for the oversight of conceded assets, both infrastructure and equipment, as well for the management of the railway’s non-conceded (or non-operational) assets. The underlying rationale for this role was that the State would need to ensure that physical assets (such as structures, drainages, equipment) operated by the concessionaire would be returned to the State in good condition at the end of the concession period. SIPF has divested or concessioned some of the non-core assets under its purview, and expects to continue this process.

5.10 Institutional Set-up. The creation of a landlord company brought with it substantial administrative bureaucracy and complexity. SIPF initially was established under the Ministry of Infrastructure, Transport and Communications. SITARAIL was also under this ministry. The MITC later was divided into two new ministries, one for infrastructure and the other for transport services. The Concession Agreement establishes that SITARAIL reports to the conceding authority, defined as the government agency responsible for transport, thus, the Ministry of Transport. Yet, under the current ministerial structure, SIPF is under the Ministry of Infrastructure. Therefore SIPF, responsible for the oversight of railway assets, including yearly preparation of a rail infrastructure inventory, is outside the formal supervision of the concession. At the same time, SIPF is not a member of the committee that manages the Railway Investment Fund, which is composed of the ministries of Transport, Economy, and Finance.

5.11 Organization and Funding. SIPF has 30 staff members, 26 of whom manage non-operational assets, and 4 of whom oversee the railway concession. Yet, some 40 percent of SIPF’s budget comes from fees paid by the concessionaire.

5.12 Relations with the Operating Company. There has been constant friction between the landlord and the operating company:

- SIPF’s mandate imposes an oversight function on the inventory and condition of conceded assets. Given the geographic dispersal of railway assets and operations, this is a costly requirement for the landlord company and for the operating company. An inventory of the assets conceded to the operating company, which ran to several hundred pages, was finally agreed (between landlord and operating companies) in 2001, after seven years of discussions.
- SIPF is also supposed to have a role in investment decisions to be made, and repaid, by the operating company. Investment policies and objectives of the operating company and SIPF may not necessarily coincide.
- Mistrust between the management and staff of both companies is rooted in the manner in which personnel for SIPF were selected: they were chosen from the pool of SICF employees that had not been selected by SITARAIL.

5.13 Need for Amending the Concession’s Organization Framework. The complex arrangements described above, and the structural tensions between landlord and operating company suggest that the concession’s organizational framework should be improved, mainly by reducing and making the mandate of the landlord company more focused. In newer railway concessions in Africa, such as the one in Cameroon, there is no landlord company and maintenance of the conceded railway assets is left entirely with the operating company.

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7. For example, the agreement between the government and SIPF stipulates that SIPF should follow compliance by SITARAIL with the Concession Agreement, but it also says, “SIPF should not interfere with (SITARAIL) management.”
5.14 Ideally, the operating agreement should be changed from the current system of “affermage” to a full concession, with the concessionaire actually owning the equipment. In practice, if formal changes are not introduced, the change may happen anyway in the long run, as the concessionaire finances and becomes the owner of the newly acquired equipment. 8

Regulations

5.15 Côte d’Ivoire’s privatization strategy of its SOEs assumes the creation of a regulatory body for each sector. In practice, this has not been done for transport or for most other sectors. Regulatory rules for SITARAIL’s operations are imbedded in the Concession Agreement, under the authority of the Ministry of Transport and its counterpart in Burkina Faso. As noted below, the concession is only lightly regulated, largely because there is strong competition from road transport, and because of the managerial freedom the Concession Agreement grants the operator.

5.16 As a concession granted by two governments, establishing a regulatory body would be complicated. Instead, the concession establishes (i) a Supervision Committee (“Comite de Suivi”), comprised of representatives of the two governments, the two landlord companies and the concessionaire, to monitor and enforce the concession, and (ii) a dispute resolution procedure, consisting of a group of five conciliators, representing the two governments, SITARAIL (2) and a fifth conciliator appointed by agreement among the parties.

5.17 The key features of the Concession Agreement’s regulatory aspects are:

- **Tariffs**: SITARAIL is free to set tariffs for both freight and passengers. SITARAIL only is required to inform the government of any intended tariff change 30 days in advance. The government has no veto power over tariff changes. Special rates may be negotiated directly with shippers and do not need to be disclosed. In practice, SITARAIL’s average freight rates, measured in constant CFAF, have decreased (in 2001-equivalent CFAF, 29.1/ton-km in 2001 versus 34.4/ton-km in 1995).
- **Services**: SITARAIL is free to change, add, or discontinue services. In practice, SITARAIL has substantially reduced passenger services. SITARAIL is also free to close stations or other facilities. While it seems surprising that neither Côte d’Ivoire nor Burkina Faso requested a guaranteed level of low-cost passenger services through a Public Service Obligation (PSO), the availability of competitive bus services justifies the governments’ position.
- **Staff**: Initial numbers of staff were fixed. Current SITARAIL staff is slightly lower.
- **Competitive behavior**: SITARAIL freedom for tariff setting and provision of services could, in theory, lead to anti-competitive behavior vis-à-vis the trucking industry. So far, it appears that truckers have not registered complaints with the Ministry of Economy. The Concession Agreement contains a clause giving the government after the fifth year of the concession the right to require SITARAIL to provide third-party operators access to SITARAIL’s track. This clause is intended to stimulate competition through contestability within the railways.

5.18 *Clients as Concession Shareholders*. A potential issue in the concession is that one of the largest clients of the railway is a major shareholder of the concessionaire. Another shipper, which was part of the disqualified bid, also became a shareholder during negotiations of the Concession Agreement. Thus, from the point of view of shareholding, there are three categories of clients: the large shareholder, the small shareholder, and the non-shareholder. In principle, this may imply a

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8. The Ministry of Transport supports this view. See Annex B.
conflict of interest, since the non-shareholders and the smaller shareholders may be discriminated against in the provision of service.

**Investments**

5.19 A critical aspect of infrastructure concessions is the reluctance of foreign operators to invest, because the risks are considered to be high and the investments generally not mobile. It is even more difficult for railways because of declining demand, political interference in management, and large investments. This latter consideration was an important factor in the decision to organize the concession as a lease rather than as a sale of assets.

5.20 Yet, the SITARAIL concession shows that if the railways can be turned into profitable operations, the private operator is prepared to finance investments in equipment. With financing from private local banks, SITARAIL has acquired four locomotives for $2.8 million, 50 freight cars for $3 million, and is preparing to invest an additional $3 million for freight cars during 2002.

In the future, the newly created Investment Fund should become the main financing source for new investments, especially for infrastructure. The Fund will be funded by a 2 percent fee on gross revenues, reallocated from the overall fees paid by the concessionaire. This arrangement globally increases the money available for investments. This is important because of the lack of financial instruments available in Côte d’Ivoire for a concessionaire to finance infrastructure investments. The assets acquired with moneys from the Fund will be managed by the concessionaire and transferred back to the government at the end of the concession.

**Social Issues**

5.21 Issues related to policies and management of human resources often are critical in the success or failure of SOE privatization. As noted earlier (and further elaborated in the Appendix) this issue was well managed in the SITARAIL concession. There was clear dedication both in the government and the operating company to ensuring that staff declared redundant would get as much compensation as possible. At the same time, the operating company established excellent relations with the labor union, by improving benefits and working conditions for SITARAIL staff. SITARAIL also has an excellent communications strategy, starting with a well designed, 10-page, bimonthly publication (“Nouvelles du Réseau”) that keeps staff informed of the company’s business news and social events.

**Renegotiations**

5.22 SITARAIL’s concession was renegotiated in 2002, seven years after its original signing. The upshot was extension of the concession’s duration from 15 to 30 years. This differs from the Concession Agreement, which stipulates a “rolling concession,” covering 15 years initially, with successive 5-year extensions possible thereafter. The renegotiations also created an Investment Fund and a management system for it; increased the user fee to be paid by SITARAIL from 4 to 6 percent of gross revenues; reduced from 3 percent to 1 percent the payment SITARAIL makes to its main shareholder for the provision of technical assistance services, and reallocated the 2 percent saving in technical assistance fees to the Investment Fund.

5.23 Operator requests to renegotiate concession contracts are a recurrent issue in infrastructure concessions. Renegotiations normally lead to longer concession periods, effectively eliminating the threat of competition “for the market” when the original concession term expires. At the same time, the longer duration, and other changes in the Concession Agreement, pose questions about transparency and whether other groups would have submitted a bid under the new terms of the concession.
Performance Monitoring

5.24 Monitoring compliance with concession agreements is a key issue in concessions. The SITARAIL concession has an excellent set of performance monitoring indicators, including traffic, operations, staff, safety, and financial. SITARAIL reports such indicators on a monthly basis, with practically no delay. Now that an Investment Fund has been created, the monitoring indicators should include figures showing the investments made.

6. Ratings

6.1 Outcome is rated satisfactory based on the subratings for relevance, efficacy, and efficiency. Relevance is rated high, since privatization of state owned enterprises is a key government objective, supported by the Bank. Privatization of the railway was a priority for two reasons. First, the railways’ deficit was a significant drag on the government’s budget, a drag that has been eliminated with the concession. Second, the long-standing decline in the railways’ quality of service affected overall transport services in Côte d’Ivoire. The decline hindered services to neighboring Burkina and in consequence threatened diversion of Burkina’s trade from the Abidjan port to other, more distant, ports in the region. Efficacy is rated substantial, since most, but not all, the investments were carried out as planned and performance targets were mostly but not fully achieved. Efficiency is rated substantial. The ICR estimates the economic return to be a satisfactory 22 percent. However, financial performance remains weak.

6.2 Institutional Development Impact is rated high. The transformation from a poor performing, deficit-ridden, publicly operated railway into a private concession is a very significant achievement. The budget subsidy to the railway has been eliminated. The operator has created a harmonious working environment, improved working conditions, and has managed to prevent the major social problems that often occur when infrastructure is concessioned. The staff of the concessionaire was trained in modern management tools and in railway techniques, especially track maintenance, a very weak area at the start of the concession and still in need of improvement.

6.3 Sustainability is rated likely. Usually, for a private operation that has substantially improved performance, sustainability should be rated highly likely. However, in this case, two interrelated factors preclude the use of higher rating. First, the concessionaire’s financial performance, while improving, is still weak and below appraisal expectations. Second, there are some significant remaining issues with freight traffic, the railway’s main revenue source, and questions about the extent to which SITARAIL will be able to expand or at least retain the existing levels of service. At present, traffic on the competing road routes between Abidjan and Ouagadougou is being constrained by an inordinate number of controls, which increase road transport costs while introducing a degree of uncertainty. If such controls disappeared, the railway could lose some of the traffic. A similar situation occurs with the petroleum bound for Mali, for which the railway currently enjoys a monopoly between Abidjan and Bouake, and which may be challenged in the future by both truckers and the Mali-Senegal railway that is being readied for concessioning.

6.4 Bank Performance is rated highly satisfactory and was excellent in all phases of the project cycle. The project was especially challenging because of the pioneering nature of railway concessioning in Sub-Saharan Africa. The Bank-designed reporting for monitoring performance was excellent and has been retained by the concessionaire after project closing as its reporting standard. During lending preparation, the Bank team had the complex role of coordinating the financing among the government and four donors, both in Côte d’Ivoire and in Burkina. The Bank team during appraisal of the project was especially concerned with the labor redundancy issue. The Bank also
conducted a tight supervision of the operation, with exceptional continuity of staffing, good reporting, and close coordination with all donors. The project’s clear focus, the detailed monthly reporting by SITARAIL, and the continuity of staffing allowed it to do an effective supervision using relatively little staff resources. While the Bank could be criticized for accepting the concept of landlord company (in fact, the Bank requested that the corporation be legally established and their managers in place in time to participate in credit negotiations)⁹ the Bank had no option since the landlord company had been made an essential requirement by a key financier.

6.5 **Borrower Performance** is rated **satisfactory**. Overall, government performance was excellent during preparation and implementation. Its privatization policies and strategies were well conceived and basically retained throughout the operation. The notion of a lightly regulated concession was correct. SITARAIL’s performance has been very good, even if not all SAR expectations have been met. SIPF and SITARAIL correctly complied with reporting requirements. Unfortunately, significant conflicts in the relationship between these two companies, particularly in the early years of the concession, preclude giving the borrower the highest rating.

7. **Lessons**

7.1 **Design of Railway Concessions.** The SITARAIL concession had two interrelated aspects that generated significant transaction costs for the operator without providing any significant benefit for the government as conceding power: (i) the creation of an asset landlord company and (ii) the design of the concession as an “affermage”(leasing) rather than outright sale of equipment. While governments may want to retain ownership of strategic assets, which could include the railways’ infrastructure, retaining ownership of equipment in a 15-year concession (now extended to 30 years), makes no sense since by the end of the concession practically all the equipment will be obsolete.

7.2 **Public and Private Benefits of Performance Monitoring.** Under the project, a well-designed system of performance reporting, with detailed monthly reports, was established. Such reports allow government officials and financiers to follow the performance of the concessioned operation. The operator has found that such reporting is useful for the management of the company, and has retained the same format and frequency of performance monitoring report after closure of the project.

7.3 **Managing the Redundancy Process.** The SITARAIL concession offers an excellent lesson about the way labor redundancy can be addressed to mitigate the negative effects. Termination grants (supported by cofinanciers), early retirement, outsourcing works to individuals made redundant, and close and open communications between management and the labor union were key ingredients to successfully tackling this delicate issue.

7.4 **Renegotiation of Concessions.** In line with what is becoming the norm in infrastructure concessions, the SITARAIL concession was renegotiated. Renegotiations are a way to avoid putting the concession out again for bid at the end of the original concession term. Yet, renegotiations undermine transparency in competitive bidding. As a minimum, renegotiations should be deferred as much as possible. SITARAIL’s renegotiations happened about seven years after the initial award of the concessions. This is better than most infrastructure concessions. Renegotiations may be required when conditions (for example, relevant legislation) change and substantively alter the framework of the concession. Concession agreements should define the conditions under which renegotiations are to take place. Experience shows concessionaires sometimes submit too good a bid for the government, in

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the expectation that the terms of the concession will soon be renegotiated. Yet, bids are business
decisions that involve risk analysis and risk taking. Post-bid negotiations are exhaustive (nine months
for the SITARAIL concession), and are the right place for the parties to ensure that the proposed
concession framework is tenable, and to establish the basis and trigger for eventual renegotiations.
Unforeseen events such as armed conflict should be covered under *force majeure* clauses.

7.5 **Role of the Bank in Railway Concessions.** The fact that only two bids were received, only
one of which was valid, points to the difficulties in finding private investors interested in operating
railways in Sub-Saharan Africa. In this situation, the Bank appears to have a significant role to play by
contributing as a financier, with its knowledge of world-wide experience with railway concessions,
and as an honest broker in the design and operations of railway concessions. The Bank’s role appears
to be especially important in regions, like Sub-Saharan Africa, where attracting private investors to the
infrastructure sectors is especially difficult.

7.6 **Suspensions of loan disbursements and privatized operations.** The Bank suspended for a
time disbursements in all its operations in Côte d’Ivoire. The privatized company was not reimbursed
for investments made during that period because the project closed before the suspension was lifted.
This situation affected the finances of the private operator, although the target of the suspension
should have been solely the borrower. The Bank should try to find ways to prevent the measures it
may take based on country conditions from harming private operators engaged under a Bank-
supported operation.
Appendix: Social Issues in the Concessioning of Côte d’Ivoire Railways

Among the most sensitive and difficult areas of privatization and concessioning of state-owned enterprises (SOEs) is the social impacts that may result. This appendix presents a brief analysis of the situation with the SITARAIL concession.

**Labor Redundancies.** Because SOEs often are hugely overstaffed, the laying off of personnel is one of the biggest issues in privatization. In the Côte d’Ivoire Railway concessioning, SITARAIL rehired 1,815 staff from within SICF and SCFB. This number compares to 3,470 (1,370 in SCFB and 2,100 in SICF) before privatization. Further cuts took place thereafter. The redundancy process was substantially smoothed by a compensation program mostly financed by cofinanciers (AFD). Redundant staff received 14 months salary on average, plus the right to immediate pension irrespective of age (this was a significant exception to pension policies). The pension program was financed by the budget. In addition, some 600 staff were allowed to keep the housing that had been provided them by SICF.

Personnel issues were further attenuated since a number of laid-off staff (estimated at 200) ended up creating or being employed by SMEs that did work for SITARAIL under contract. This work was mostly for track maintenance operations. At the same time, foreign technical assistants, normally a source of friction within staff, were reduced from about 40 in SICF to about 4 under SITARAIL.

**Labor Reaction.** A three-day labor strike at start of the railway privatization process marked labor’s opposition to the process. Similar opposition continued for about six months. The strike and union demands were instrumental in securing the pension program and the housing arrangement described above. Another strike, not organized by the union, took place in 1998 and resulted in 100 staff losing their jobs, 50 of whom were later re-admitted following union pressure. The union now takes a positive view of the privatization process.

**Benefits.** The personnel retained by SITARAIL started with identical salaries to those paid by SICF. However, their vacation days increased, and so did their medical benefits. A new medical benefit was coverage of the concubine, an important benefit since many couples are not legally married. The labor union also reported that working conditions have improved, such as the provision of working clothes and helmets, and improved lodging facilities during fieldwork. SITARAIL has been selected as one of the pilot enterprises under the Bank-financed HIV/AIDS project. SITARAIL claims that AIDS-related deaths have decreased from about 100 per year (relative to SICF’s 3,200 staff) to about 20 per year (relative to 1,800 staff).
Annex A. Basic Data Sheet

Key Project Data (Amounts in US$ million)

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TE= Transport Economist, RS= Railway Specialist PA=Project Assistant
OO=Operations Officer, FA=
Annex B: Borrower Comments

UNOFFICIAL TRANSLATION

Ministry of Transport
Republic of Côte d’Ivoire

Abidjan, February 27, 2003

We are in broad agreement with the views presented by the evaluation mission,

The project, for the fact that it was the only example in Africa of a railway concession to a private operator, has been a success that many did not anticipate. In addition, the binational characteristic of the operation was a potential source of operational problems, both for the concessionaire and for the Conceding Authority comprised by the two States. In practice, the situation was well managed and integrated into the project economic dimension, by the States as well as by SITARAIL.

However, we have comments on some specific points of the PPAR.

On the institutional arrangements

The PPAR states that the creation of a patrimony corporation was not a good approach.

This criticism should be qualified. It was the not the existence of the patrimony corporation that created difficulties, but the fact it was a new experience in Côte d’Ivoire’s institutional set up, and therefore difficult for those responsible to fully control.

We are in agreement that it is necessary to revise the institutional framework of the concession. It would be enough to place the SIPF under the Ministry responsible for transport, as it is done in Burkina. It is also necessary, as suggested by the PPAR, to fine tune the attributions of the Patrimony corporation, to reflect the amendments made to the concession following the renegotiation that took place in 2001.

Lessons from the concession

Design of railway concessions

We continue to support the approach involving creation of a Patrimony corporation because, having such corporation a permanent presence in the concession, it will be compelled to gather essential information on technical and practical aspects of the concession. An administration directly under the State would not have such a possibility, given the budgetary and bureaucratic constraints of government operations.

With respect to the leasing (‘affermage’) system, it eventually will become obsolete, since the amendments introduced during the renegotiation state that “the concessionaire will take it upon itself to purchase new equipment, which will become its property”.

Therefore, in the long run, a real concession will develop, where the Patrimony corporation will only own the infrastructure, while all the equipment will belong to the concessionaire.

**Suspension of disbursements**

We fully agree with the PPAR that the Bank should not penalize the concessionaire when there is a suspension of disbursements, a measure which is taken regarding the Borrower, from which the concessionaire should be completely independent.

Even more so that the Borrower, thereafter, when the suspension was lifted, continued to receive disbursements.

The Ministry of Transport would ask the Bank if it would be willing to approve, on an exceptional basis, to reimburse SITARAIL, especially considering that this company has been further harmed by the war of 19 September 2002.

For the Minister

Yeo Tiovaga
Directeur du Cabinet