Report Number : ICRR13346

# IEG ICR Review
Independent Evaluation Group

| 1. Project Data: | | Date Posted : | 03/16/2010 | |
|---|---|---|---|---|
| PROJ ID : | P054786 | | Appraisal | Actual |
| Project Name : | Railway Concession Project | Project Costs (US$M): | 85.60 | 87.44 |
| Country: | Cameroon | Loan/Credit (US$M): | 21.39 | 21.02 |
| Sector Board : | TR | Cofinancing (US$M): | 21.40 | 21.33 |
| Sector(s): | Railways (95%)<br>Other social services (5%) | | | |
| Theme(s): | Infrastructure services for private sector development (33% - P)<br>State enterprise/bank restructuring and privatization (33% - P)<br>Rural services and infrastructure (17% - S)<br>Other environment and natural resources management (17% - S) | | | |
| L/C Number: | C3695 | | | |
| | | Board Approval Date : | | 07/18/2002 |
| Partners involved : | French Agency for Development; European Investment Bank. | Closing Date : | 12/31/2008 | 06/30/2009 |

| Evaluator : | Panel Reviewer : | Group Manager : | Group : |
|---|---|---|---|
| Kavita Mathur | Peter Nigel Freeman | IEGSE ICR Reviews | IEGSE |

## 2. Project Objectives and Components:

### a. Objectives:

The objectives of the project were to:
(a) improve the efficiency and sustainability of the transport sector through private operation of the railway sector; and
(b) eliminate the burden on public finance for provision of railway services.

### b.Were the project objectives/key associated outcome targets revised during implementation?

No

### c. Components (or Key Conditions in the case of DPLs, as appropriate):

**Infrastructure Rehabilitation and Modernization** (appraisal estimate US$36.6 million, actual cost US$39.0 million). This component aimed to rehabilitate and modernize the rail infrastructure based on an initial network assessment. It included: (i) renewal of about 63 km of track (K'AA - ZING); (ii) rehabilitation of about 200 km of track with recovered rails (PK506-BELABO, 55 km, and BELABO-PANGAR, 145 km); (iii) construction and rehabilitation of small and medium structures and bridges; (iv) acquisition of signaling and radio-telecommunications equipment to improve safety in railway operations; (v) rehabilitation of main train station buildings and general engineering work; and (vi) extension of the port of Douala's railway network.

**Rehabilitation of Rolling Stock, Track Maintenance Equipment and Workshops** (appraisal estimate US$22.2 million, actual cost US$20.8 million). This component included: (i) rehabilitation of 11 CC Class and 10 BB Class locomotives; (ii) rehabilitation of 42 passenger coaches and 220 freight cars; (iii) improvement of workshop facilities, including rehabilitation and purchase of maintenance tools and equipment; and (iv) the rehabilitation and acquisition of track maintenance equipment.

**Environmental Improvement Activities** (appraisal estimate US$5.15 million, actual cost US$5.15 million). This component included two subcomponents:

(a) Environmental Improvement activities: This sub-component was to address environmental pollution related activities comprising: (i) clean-up of railway-related sites polluted before the concessioning, in particular the area around the creosote facility in Douala and the diesel fuel stations and workshops in Douala and Yaoundé; (ii) engineering studies and supervision works; and (iii) implementation of the Environmental and Safety Management Plan (ESMP).

(b) Social Improvement activities: This sub-component dealt with two major issues: (i) safety with the construction of level crossings and pedestrian bridges and (ii) the potential resettlement of project affected people established in the railway right-of-way with a yearly audit and provision for eventual resettlement compensation.

**Emergency Investment Program** (appraisal estimate US$21.68 million, actual cost US$22.5 million). The emergency investment program was entirely financed by Cameroonian Railway Company (CAMRAIL) and completely executed prior to the start of the IDA funded activities. They were reflected in the total investment plan to reflect the significant initial effort by the Concessionaire vis à vis the other co-financiers. This was done through sponsor equity or lending, and cash flow generated by operations. CAMRAIL took over operation of the railway in April 1999 and conducted an emergency investment program starting in 2000 including: (i) fixed installations and buildings (track work, bridges and culverts, workshop improvements); (ii) signalization and telecommunications; (iii) spare parts (logistics, workshop, etc.) and (iv) administration.

### d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

**Project Cost & Financing**: The total project cost was US$87.4 million, slightly higher than the appraisal estimate of US$85.6 million. At project closing, a credit amount of US$21 million was disbursed. Cofinancing from French Agency for Development was US$10.5 million and European Investment Bank was US$10.8 million.

**Borrower Contribution**: Borrower did not make any direct cash investment but CAMRAIL invested US$37.0 million.

**Dates**: The project closing date was extended by six months, from December 31, 2008 to June 30, 2009 to allow for: (a) full disbursement of the credit amount (as two suppliers could not deliver by the closing date); and (b) to carry out environmental cleanup work in Douala, which required additional time due to delayed inputs.

## 3. Relevance of Objectives & Design:

The project objectives were in line with the 2001 Country Assistance Strategy progress report which supported the privatization of the state-owned transport companies and remained substantially relevant to the 2006 Interim Strategy Note which aimed at fostering private sector development. The project also supported the Government's Transport Sector Strategy and Policy, which calls for State divestiture of transport operations in favor of greater private sector operation.

This project was originally appraised by IFC but was turned down because: (a) the financial projections prepared by CAMRAIL were considered too fragile, and (b) the inability for the sponsors (in the configuration of the equity of the concession which was prevailing at the time) to provide adequate guarantees. The TTL said that IFC had some reservations concerning the sponsor. In fact the project was actually ground breaking in that it led the way towards concessioning despite the limited local capacity and the lack of a PPP framework. The project design included infrastructure rehabilitation and modernization, environment and social improvement activities and technical assistance from different financiers to mitigate risks associated with the relatively new concept of rail concession. The project incorporated the lessons learned from previous operations such as the experience of the railway concessioning project in Cote d'lvoire and in Brazil. Safeguards were appropriately identified. The main

shortcomings however were: (i) the lack of detailed review of CAMRAIL's proposed investment plan which resulted in an underestimation of investment projections; and (ii) weak monitoring design (as discussed in section 10 below) having too many indicators with some being too ambitious or redundant. There were more output indicators rather than outcome indicators. Design relevance was modest.
Overall, the relevance of objectives and design is substantial.

**4. Achievement of Objectives (Efficacy):**

Improve the efficiency and sustainability of the transport sector through private operation of the railways sector: substantially achieved. The project was able to contribute to this goal through the implementation of a 20 year concession contract designed to enhance railway productivity, service quality and competitiveness through modernization, rehabilitation and operation of the railways.

- The rail traffic increased to 978 million ton/km in 2008 from 880 million ton/km in 1999 but was slightly lower than the target value of 1,047 million ton/km.
- Staff productivity expressed as traffic units/staff increased to 521,422 in 2008 from 459,957 in 1999 but was lower than the target value of 565,000. The productivity ratio has not reached the target value in the end due to the economic downturn.
- At project closing, wagon turnaround was 4.9 days and target of <= 7 days was met.
- The availability of CC2200 and CC2600 locomotives was 83% and 70%. The targets of >=85% and >=80% were not met.

Eliminate the burden on public finance for provision of railway services: highly achieved.
The concession reduced the fiscal impact of the state enterprise, by reducing subsidies and investment and increasing taxes paid by concessionaire. Net annual transfer from concessionaire to GOC in 2008 were 7.3 billion FCFA compared to 6 billion FCFA net transfer from GOC to state owned railway in 1999. The target of positive flows to GOC from the Concessionaire were consistently met.

**5. Efficiency (not applicable to DPLs):**

At appraisal the Economic Rate of Return (ERR) of the concession program was estimated at 26%. The ex-post ERR is 39.6%. The ICR notes that the identification of benefits and underlying assumptions are relatively comparable with the cost benefit analysis at appraisal.
The project efficiency can also be measured through the achievement of financial sustainability for the Concessionaire. The target value of the current liquidity ratio at appraisal was to be > 1. The current value of 1.1 shows that CAMRAIL is now able to pay back its short-term liabilities with its short-term assets.
CAMRAIL achieved its primary objective to maintain a debt coverage ratio greater than 1.4 with a value of 1.8 at the end of December 2008. This good benchmark shows that CAMRAIL is now able to produce enough cash to service its debt reliably.

**a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :**

| | Rate Available? | Point Value | Coverage/Scope* |
|---|---|---|---|
| Appraisal | Yes | 26% | 0% |
| ICR estimate | Yes | 39.6% | 0% |

* Refers to percent of total project cost for which ERR/FRR was calculated.

**6. Outcome:**

Taking into account substantial relevance, efficacy and efficiency, the outcome is rated satisfactory.

**a. Outcome Rating :** Satisfactory

**7. Rationale for Risk to Development Outcome Rating:**

CAMRAIL achieved its primary objective to maintain a debt coverage ratio greater than 1.4 with a value of 1.8 at the end of December 2008. This good benchmark shows that CAMRAIL is now able to produce enough cash to service its debt reliably. The main risk to Development Outcome Rating is assessed as moderate because although the second amendment to the concession does provide long term sustainability to the concession framework, it supposes substantial investment from the GOC in infrastructure.

**a. Risk to Development Outcome Rating :** Moderate

### 8. Assessment of Bank Performance:

The Bank played an active role in development of both the Transport Sector Strategy and the Transport Sector Program, of which this project was a component. The Bank also brought considerable experience in privatization and concessioning to assist the Government of Cameroon and CAMRAIL. Technical, institutional and safeguards aspects were appropriately identified at appraisal. Despite all this, the Bank Performance in Ensuring Quality at Entry is rated moderately satisfactory because: (a) the list of indicators were too numerous and ambitious; (b) there were no specific environment-related indicators; and (c) there was lack of detailed review of CAMRAIL's proposed investment plan which resulted in an underestimation of investment projections.

The quality of supervision was satisfactory. The project had two supervision missions on average every year which were followed by detailed aide-memoires. During each supervision mission, the Bank team carried out a broad review of the project and made detailed recommendations to the Concessionaire and the GOC. These recommendations were generally implemented. The skill-mix of Bank's supervision team was adequate - forestry and social development specialists were part of the supervision team. The actions taken by the Bank to resolve implementation bottlenecks were timely and proactive, for example revision of the emergency investment plan based on business needs. Also, the Bank maintained dialogue with the GOC regarding the necessity of paying arrears to CAMRAIL linked to passenger services deficit. The Bank played the very important role of 'honest broker' during the revision of the concession contract in 2006 through 2007.

**a. Ensuring Quality -at-Entry:** Moderately Satisfactory

**b. Quality of Supervision :** Satisfactory

**c. Overall Bank Performance :** Moderately Satisfactory

### 9. Assessment of Borrower Performance:

While the Government of Cameroon (GOC) indicated a commitment to increasing competitiveness in the rail sector, the reality was that its support for some key measures, particularly those relating to passenger services lacked sufficient commitment. GOC refused to let CAMRAIL increase passenger fares even at a time when CAMRAIL was in financial difficulties. Also, the GOC was slow in building capacity which was critical to the concession's success. This sometimes led to a lack of expertise when facing some of the Concessionaire's requests or in applying concession terms. However, GOC's performance since 2005 improved and GOC has since then fulfilled its commitment to the proposed sector reforms by signing two amendments to the concession contract and paying its accrued debt on passenger services.

The performance of the implementation agency, CAMRAIL, is satisfactory. CAMRAIL invested US$37.0 million in the project. It implemented the M&E system through its Investment Planning and Evaluation Unit (UPSI). This enabled CAMRAIL to provide timely reports and progress indicators.

**a. Government Performance :** Moderately Satisfactory

**b. Implementing Agency Performance :** Satisfactory

**c. Overall Borrower Performance :** Moderately Satisfactory

### 10. M&E Design, Implementation, & Utilization:

**M&E Design**: The indicators agreed upon during project preparation were designed to fit the financial requirements of the direct lenders, and allow the GOC and its financiers to review the operational performance of the concession. This resulted in indicators that were probably too ambitious and redundant to provide a concise view of the project implementation and the achievement of project development objectives.

**M&E Implementation**: The implementation of the Environmental and Social Management Plan (ESMP) was

carried out by an international NGO, World Conservation Society (WCS) and the Environmental and Safety Department (UPSI) of CAMRAIL. There were no specific environment related indicators and the review of the ESMP was therefore mostly qualitative. CAMRAIL provided all indicators monthly, with quarterly reports followed by annual reports summarizing their status. These in-house reports were reviewed by both the GOC and donors. Independent external reviews were also carried out to verify the accuracy of data submitted by CAMRAIL.
**M&E Utilization**: CAMRAIL used indicators from data collected to monitor its own operations. This allowed for timely and appropriate actions to be taken in requesting the reallocation of funds as were deemed necessary (for example, the reallocation to emergency track repairs was followed by a significant increase in derailment statistics). Both in-house reports and donors analyses were used in the preparation of the amendments to the concession as well as the preparation of subsequent investment plans and funding from IDA.

**a. M&E Quality Rating :** Modest

## 11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

Safeguards: At appraisal the project was appropriately assigned Environmental Category"A" because of potential environmental, health and safety, and social impacts. An Environmental Assessment was undertaken and and Environmental and Social Management Plan (ESMP) was prepared. The ESMP included following risks: (i) transport of illegal tropical hardwood logs, and sawn timber; (ii) transport of illegal bushmeat products; (iii) inadequate occupational health and safety management systems; (iv) unsafe tracks and other infrastructure; (v) inadequate storage, handling and transport of fuels and hazardous materials and inadequate liquid and solid waste management; (vi) serious soil and groundwater contamination; (vii) lack of a fire prevention and emergency preparedness and response plan; (viii) current residential and commercial users of railroad safety zone and rights-of-way affecting safety; (ix) lack of employee environmental and environmental hygiene awareness; and (x) potential abandonment of passenger stations having an impact on people's livelihood. Other applicable safeguards were Natural Habitats (OP/BP 4.04), Forests (OP 4.36) and Involuntary Resettlement OP/BP 4.12). Public consultation was undertaken and information on environmental and social issues was made available to the public through public announcements.
The implementation of the ESMP was carried out by an international NGO, World Conservation Society (WCS) and the Environmental and Safety Department of CAMRAIL through consultancy firms and NGOs. There were no specific environment related indicators. The review of the ESMP was therefore mostly qualitative but the measures to prevent illegal logging and bushmeat trade were innovative and used in a follow-on project. CAMRAIL carried out an updated Environmental and Social Audit in 2007. This review was considered satisfactory by the Bank and main recommendations were implemented by CAMRAIL. Environmental cleanup experienced delays in its design and execution which resulted in the six month extension of the credit. However the scheduled works were finally carried out within budget.

The ICR notes that the resettlement of Project Affected People established in the railway right-of-way was done in compliance with applicable safeguards, but provides no details in terms of number of people affected/displaced or the compensation provided. Also, the ICR does not provides sufficient details on the implementation of Natural Habitats and Forests safeguards.

Fiduciary: Audit reports were submitted on time and on a regular basis and were of satisfactory quality.

Unintended Impacts: CAMRAIL improved social conditions by improving access to potable water through potable water connections, construction of wells, installation of fountains, regular water drilling, etc. It introduced free medical examinations and health care to food sellers in canteens. Several low cost food sale sites (warehouses) were set up by CAMRAIL in Douala. CAMRAIL covered 80 percent of its employees health care, primarily through its six medical centers in Douala and Yaoundé.

| 12. Ratings: | ICR | IEG Review | Reason for Disagreement /Comments |
|---|---|---|---|
| Outcome: | Satisfactory | Satisfactory | |
| Risk to Development Outcome: | Moderate | Moderate | |

| | | | |
|---|---|---|---|
| **Bank Performance :** | Satisfactory | Moderately Satisfactory | Based on the harmonized ICR guidelines. |
| **Borrower Performance :** | Moderately Satisfactory | Moderately Satisfactory | |
| **Quality of ICR :** | | Satisfactory | |

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

**13. Lessons:**

***Concession design:*** There is a need to recognize the time necessary to complete the process of private participation/concessioning which entails staff retrenchment. This factor is often underestimated by transaction advisors and governments. There is also a need to strike a balance regarding the likely outcomes of a concession between what a private institution requires with respect to its profitability, and the demands of the government which are to a great extent often politically driven.

***Capacity building:*** In the context of railway concession, institutional development and capacity building are critical factors to ensure sustainability during implementation and after project completion. Specific expertise is a prerequisite for engagement into such ventures. A technical assistance component not managed by the Concessionaire should be included in the design of similar projects in order to provide appropriate assistance to the Government during both project implementation and preparation.

***Monitoring Indicators:*** Should include performance indicators that are not too ambitious and can be monitored given the data availability/collection limitations.

***Safeguards Implementation:*** The safeguards implementation should be monitored during project implementation through clear measurable indicators.

***Passenger services:*** Most passenger rail components of concessions require subsidies from the government for public service operations. These operations are not the major priority of the concessionaire and can result in a deficit and lack of assurance of financial sustainability and/or neglect of passenger services activities. An appropriate passenger services obligation, which defines clear and practical rules should be part of the concession design from the outset.

**14. Assessment Recommended?** ● Yes ○ No

**Why?** It would be useful to contrast the experience with rail concessioning in Francophone Africa with that in Anglophone Africa.

**15. Comments on Quality of ICR:**

Overall, the quality of ICR is satisfactory. It generally provides good quality evidence and analysis and identifies excellent lessons. The main shortcomings are: (i) it does not provide details of the implementation of Involuntary Resettlement, Natural Habitats and Forests safeguards; (ii) it gives an incorrect rating for Bank Performance which is not in accordance with the ICR guidelines (as discussed in section 12); and (iii) the report is a bit lengthy at 25 pages.

**a.Quality of ICR Rating :** Satisfactory