



1. Project Data :
OEDID: L3262
Project ID: P005459
Project Name: Second Rural Electrification
Country: Morocco
Sector: Distribution & Transmission
L/C Number: Loan 3262-MOR
Partners involved :
Prepared by: Alain A. Barbu, OEDST
Reviewed by: Hernan Levy
Group Manager: Roger H. Slade
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2. Project Objectives, Financing, Costs and Components :
The project, supported by a loan of US\$ 114 million was approved in FY91 and closed as scheduled in FY97. A total of US\$77.5 million (68 percent) was cancelled. The final project cost was US\$ 119 million, about half the appraisal estimate, due to a substantial reduction in project scope (see below). The stated objectives of the project were to (a) expand electricity supply to the rural areas (170,000 new connections); (b) improve the reliability and quality of service of the existing rural distribution network; (c) strengthen the administrative, planning and financial capabilities in the power sector; (d) implement institutional reforms to delineate and streamline responsibility for the rural power distribution system; and (e) encourage further reforms in the electricity tariff structure. Accordingly, the project included: (a) works and equipment for new lines, transformers and connections; and (b) studies in the areas of inventory management, distribution works management, computer hardware and software, and training. In addition, loan covenants provided for increases in tariffs, reduction in arrears and the reorganization of ONE (the power utility).

3. Achievement of Relevant Objectives :
After a late start-up and extremely slow initial implementation progress due to inadequate financing and institutional arrangements (see below) and given the availability of alternative concessionary funds, the project scope was drastically reduced and two-thirds of the loan amount cancelled. When it is completed at end-1999, the project will have electrified only half of the target number of rural households and coverage in the targeted areas will have increased from 25 percent in 1990 to only 28.5 percent (instead of the appraisal estimate of 45 percent). Progress was very limited on the institutional and financial front for most of the project's implementation period. However, since 1996, the Government has (i) changed both the level and structure of ONE's tariffs, which has led to strengthening of ONE's finances, (ii) put in place a new system for payment of public sector bills, which has reduced ONE's arrears significantly; and (iii) arranged for an improved organizational setup for rural electrification (RE) activities within ONE and more effective RE financing arrangements.

4. Significant Achievements :
An additional 80,000 rural households have gained access to electricity. Ex-post ERR on the reduced project is 15.3 percent (17.8 at appraisal). Progress has been made on the policy and institutional fronts since 1996 (see above). And in parallel with the preparation of a subsequent project, broader sector reform has also gained ground recently with the privatization of Casablanca's distribution company and the undertaking of a major IPP-financed generation project (Jorf Lasfar).

5. Significant Shortcomings :
The Project design lacked detailed implementation arrangements such as a PIU and the proposed counterpart financing arrangements were unrealistic, in light of the Government's lack of commitment. The latter were revised at GOM's request, in order to make the loan effective, more than two years after approval. However, the new arrangements, which involved a financial intermediary (FEC), proved even worse than the original design. Only more recently, and essentially without the benefit of IBRD funding, has a sustainable RE financing scheme been put in place, with the support of bilateral concessionary finance.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Marginally Unsatisfactory	68% of loan was cancelled and physical completion of the much-reduced (albeit still economically justified) project is not expected till end-1999, 3 years later than scheduled.
Institutional Dev .:	Partial	Modest	Limited scope of project's ID components and ONE's poor financial performance during most of the implementation period. Belated institutional and policy improvements on the RE front appear to have been be in reaction to the failure of the Bank project rather than to the Bank's advice (the revamped RE program is being supported by other donors). On the other hand, project appears to have played some part in fostering more recent progress in broad sector reform.
Sustainability :	Likely	Likely	Considering the initial positive impact of the latest changes in organizational and financing arrangements for RE.
Bank Performance :	Deficient	Unsatisfactory	Project had serious design weaknesses from the start and efforts to remedy them were also flawed. Bank was slow to use remedies and to scale down/restructure the project. Supervision ratings were overoptimistic for first 3 years.
Borrower Perf .:	Deficient	Unsatisfactory	GOM lacked basic commitment to project, unwilling to release counterpart funds or propose workable financial and institutional arrangements. Project amendment (at GOM's behest) to allow effectiveness was worse than original design.
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

This project once again demonstrates the primordial need for the Bank, at design stage, to : (i) ascertain government commitment to project objectives and design and (ii) scrutinizing institutional and financial arrangements for project implementation. The ex-post economic evaluation also shows that RE programs can be economically viable under the right circumstances when economic benefits to the consumers are fully accounted for .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is of good quality and candid in its discussion of the project 's shortcomings. However, the section on lessons learnt could have stated more explicitly the need for a more forceful use of remedies by the Bank in case of sustained lack of Government commitment