



<b>1. Project Data:</b>		<b>Date Posted :</b> 06/01/2004	
<b>PROJ ID:</b> P008788		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Telecommunication	<b>Project Costs (US\$M)</b>	44.00	29.74
<b>Country:</b> Romania	<b>Loan/Credit (US\$M)</b>	30.00	13.55
<b>Sector(s):</b> Board: GIC - Central government administration (100%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L4319			
	<b>Board Approval (FY)</b>		98
<b>Partners involved :</b>	<b>Closing Date</b>	12/31/2002	06/30/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Alvaro J. Covarrubias	Roy Gilbert	Alain A. Barbu	OEEDST

**2. Project Objectives and Components**

**a. Objectives**

(a) Objectives

The objectives of the project were to: (a) assist Romania in reforming the telecom sector, including privatization of existing public sector telecom facilities; (b) provide the necessary infrastructure to enable the General Directorate for Communications and Information Technology (GICIT) to maximize the productive use of the radio frequency spectrum and to improve frequency assignment criteria for further expansion of wireless communications services provision by the private sector; and (c) to support GICIT in performing regulatory functions over all networks and services in the telecom sector.

**b. Components**

The project had two components:

(a) Sector Reform, costing US\$1.8 million, comprised: (i) development of policies on competition, ownership, pricing, and regulations, and industry structure and extent of participation of existing entities, and policies; (ii) legal framework for transparent regulation and the chosen policy alternatives; and (iii) regulatory framework to strengthen technical regulation (quality of service, type approval, frequency spectrum management) and economic regulation (prices, license fees); and (iii) Privatization of Rom Telecom; and (b) Regulatory Agency Development, costing US\$27.9 million, focused on strengthening the General Inspectorate of Communications (GIC) –later organized into GICIT– as the principal regulatory body for the telecom sector, including modernization of the infrastructure for radio spectrum management and monitoring. This component was implemented based on the governing principles of independence, structure, autonomy and area of responsibility, and the development of a National Spectrum Management System (NSMS). The latter comprised: (i) installation of hardware and operating system software; (ii) installation of application software for Radio Frequency Spectrum Management; and (iii) a frequency monitoring system.

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

The project was completed at a cost of US\$29.74 millions or 68 percent of the appraisal estimate. The cost savings resulted from a favorable competition in the ICB for the procurement of the equipment and software for the NSMS, financed by the loan. It led the Government to cancel US\$7.0 million from the loan in March 1, 2000. A total of only US\$13.55 million disbursed from the loan (45 percent of the original loan) financed hardware and software for the NSMS and other equipment (US\$10.82 million) and consultant services (US\$2.73 million). The loan was closed following an extension by 6 months of the original closing date, at which time the remaining US\$9.45 million were cancelled. The Government financed goods, works and services totaling US\$14.4 million equivalent or 118 percent of the appraisal estimate.

**3. Achievement of Relevant Objectives:**

The project objectives were substantially achieved. The project assisted the Government in the design of the institutional and regulatory framework to reform the telecommunications sector and supported the initial steps of implementing these reforms as follows. The project helped establish in 2002 an independent National Regulatory Agency for Communications (NRAC) and the GICIT, for which the project provided legal assistance (complemented by USAID-funded training) that were critical in commencing NRAC operations. The project also provided GICIT with: (a) the technical assistance needed to initiate regulatory functions, implement in 2003 the R&TTE directive of the European Union (EU) and comply with WTO obligations; and (b) the

necessary hardware, software (NSMS) and advice to maximize the productive use of the radio frequency spectrum, satisfactorily assign frequencies, and extend them to 275 GHz, which led to an explosive growth of the wireless communications services provided by the private sector as noted in Section 4 below (however, the operation of the NSMS is not fully satisfactory since only 30% of its parts are in operation, which is a problem likely to be fixed within the next 6 to 9 months). Finally, the project also led to the sale of more than half of the shares of Rom Telecom, using an appropriate strategy for its partial privatization.

#### 4. Significant Outcomes/Impacts:

- A regulatory structure was established. It assigned responsibilities to three entities: the NRAC, under the Prime Ministry Cabinet, responsible for economic/competition regulation, management of the authorization process, and additional licensing functions; the MoCIT, responsible for spectrum and numbering policy, and licensing of spectrum usage; and the GICIT, under the MoCIT, responsible for technical regulation, spectrum monitoring, and assignment of frequencies for non-government use.
- In 2002 Romania became the first country –including existing EU members– meeting the new EU legislation for telecommunications, as well as complying in 2003 with its obligations with the World Trade Organization to liberalize the telecom sector. However, its prospective access to the EU in 2007 is conditioned to a review of the issue of independence of the regulator from the Government and elimination of the potential conflicts of interest noted in Section 3 above.
- Rom Telecom was privatized: 54 percent of its shares are now in the hands of the private sector.
- A Radio Frequency Spectrum monitoring system was implemented comprising 22 fixed monitoring stations, 10 mobile stations, 15 transportable stations, and enabling software.
- Project impact has been impressive: mobile phones rose from 0.64 million in 1998 to around 6.4 million in 2003; mobile service has become a serious competitor for fixed line carriers; two new fixed line operators entered to the sector to compete with Rom Telecom that still provides 97 percent of this service; and quality of service and customer services have significantly improved.
- Although not part of the project but indirectly facilitated by it, the state-owned electricity transmission utility and the railways have invested more than US\$300 million in subsidiaries to offer telecom services using fiber optic telecom networks installed along their rights of way.

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

The actual institutional and regulatory framework implemented in Romania differs from the original design agreed with the former Government that contemplated only one regulatory entity. The change in the design favored by the new Government included two regulatory entities replicating the UK practice at that time. Although the Bank agreed with the change following two years of dialogue and careful consideration of the merits of both regulatory models, it is now recognized that a conflict of interest could arise from the fact that the MoCIT is responsible for radio frequency allocation and still owns 46 percent of Rom Telecom. It is noted that recently the UK has adopted a model with only one regulatory entity for the telecommunications sector.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	The performance and coordination between the two regulatory agencies of the telecom sector and the potential conflict of interest noted above in Section 3 should be closely monitored.
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

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

#### 7. Lessons of Broad Applicability:

- (1) Close coordination of donors is a key factor to achieve reform progress. In this project, the Bank maintained close relations with the EU and the USAID both of which were active in providing grant assistance to the telecom sector without being co-financiers of the project. This ensured that no duplication of efforts occurred and facilitated the provision of timely advice.
- (2) A competent radio spectrum management and monitoring system is necessary for an expanding telecom sector. The increased capabilities of the NSMS installed in the GICIT –although not yet as robust as envisioned– were essential to support the rapid growth in use of the radio spectrum.
- (3) Stability of policy and agency structure contributes to project achievement. In this case, a change in Government delayed the telecom reform because the institutional structure for the reform preferred by the new Government differed from the one agreed at project appraisal with the old Government. This also raises the issue whether an existing technical agency can be transformed to also perform legal, economic, administrative, and competition aspects of regulation or a new agency should be created to collaborate with the existing technical agency.

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

**Why?** To compare Romania's telecommunications sector development with the experience in other countries, and derive lessons of potentially broad applicability.

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

The ICR complies with the Bank guidelines for ICRs. It presents a detailed account and evaluation of the transformation and privatization of the Romanian telecommunications sector, and of the significant increase of the fixed line services and explosive growth of the mobile services resulting from the reform. However, it could have been enhanced by reporting the results of the project mid-term review done in July 2001.