



1. Project Data:		Date Posted : 03/01/2004	
PROJ ID: P008777		Appraisal	Actual
Project Name: Petroleum Sector Rehabilitation	Project Costs (US\$M)	345.6	159.6
Country: Romania	Loan/Credit (US\$M)	175.6	159.6
Sector(s): Board: EMT - Oil and gas (96%), Central government administration (4%)	Cofinancing (US\$M)	53.2	53.2
L/C Number: L3723			
	Board Approval (FY)		94
Partners involved : EIB, USAID, USTDA	Closing Date	12/31/1999	06/30/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
The objectives of the project were to : (a) assist the Government of Romania (GOR) in achieving the objectives of its petroleum sector strategy to promote private sector investments in the petroleum sector, strengthen institutional capabilities and establish a suitable regulatory framework to facilitate the development of an efficient and commercially-oriented petroleum sector; (b) assist each of PETROM, ROMGAZ and CONEPT in improving its operational efficiency and financial management; and (c) assist in implementing abatement measures to address environmental pollution in the sector.			
b. Components			
The project had four components involving the GOR/MOI (Ministry of Finances) and three State-owned enterprises: PETROM (for petroleum), ROMGAZ (for gas) and CONPET (for crude oil transport) summarized as follows: (1) for GOI/MOI: carrying out a program to strengthen the policy making functions including : (i) the development and implementation of a fuel policy; a pricing policy for oil and gas transmission and distribution; a strategy for restructuring and optimizing the refinery sub-sector; and a strategy for upgrading the operations of the oil services sub-sector; (ii) the establishment of a regulatory framework for the petroleum sector; and (iii) the establishment and operation of an independent agency (NAMR, National Agency for Mineral Resources) to function as regulatory authority for the petroleum sector. (2) for PETROM, ROMGAZ and CONPET: development and implementation of a corporate restructuring and development program with the objective of improving their organization, streamlining their operations and improving their financial condition and management; carrying out an environmental action plan to introduce environment and abatement measures in production, transmission and distribution systems; and provision of technical assistance, staff training, equipment, spare parts and materials. (3) for PETROM and ROMGAZ: upgrading selected production facilities and introducing modern production facilities; and implementing enhanced gas/oil recovery techniques for the production of gas/oil in selected gas/oil fields through joint ventures with international companies. (4) for ROMGAZ and CONPET: carrying out a program for the rehabilitation of gas/oil distribution systems through the replacement of severely corroded 1000 km of gas pipelines and 300 km of oil pipelines, and the installation of telecommunication systems and SCADA systems for the monitoring, automation and optimization of gas/oil transmission.			
c. Comments on Project Cost, Financing and Dates			
The actual project cost is not reported in the ICR because the beneficiaries were unable to provide data on their own contribution to the project cost. Consequently, the ICR did the analysis of project cost and ERR based on the value and timing of the disbursement data of the Integrated Controller's System. The ICR took as a proxy of project cost the US\$159.56 million disbursed from the US\$175.6 million Bank loan. Project implementation took longer than expected and was completed following four extensions of the loan closing date, for a total of 42 months, mainly caused by the difficulties encountered in implementing the CONPET component. The Bank loan financed consultant services and training for GOR/MOI, ROMGAZ, PETROM and CONPET, and the procurement of construction services, goods and materials for PETROM, ROMGAZ PETROM and CONPET.			
3. Achievement of Relevant Objectives:			
The project objectives were substantially achieved. The GOR has promoted private sector investments in the			

petroleum sector by establishing a suitable regulatory framework in which the National Agency for Mineral Resources (NAMR) is playing the role of an independent regulatory agency for the petroleum sector . The project assisted in restructuring PETROM, ROMGAZ and CONPET that resulted in unbundling the exploration, production, transmission and distribution of oil and gas and in improving the efficiency of their now commercially oriented operations . The petroleum sector entities have significantly abated pollution of the environment by developing and executing programs containing environmental protection measures implemented by central and regional environmental units .

4. Significant Outcomes/Impacts:

(a) The enactment of the Petroleum and Gas Law in 1995 lifted constraints to private sector entry; gave to the National Agency for Mineral Resources, reporting directly to the Cabinet of Ministers, a central role as the autonomous regulatory authority for the petroleum sector; and provided the basis for environmental and safety regulation of the petroleum sector . NAMR has carried out a petroleum exploration program based on an updated national geological data to facilitate the participation by international oil companies . Following 4 bidding rounds, NAMR has finalized 11 concession agreements with foreign companies who completed US\$ 200 million of exploration work.

(b) The Sector Environmental Assessment (SEA) was instrumental in the developing of environmental programs for the sector entities . The headquarter and regional environmental units are : assuring that all permits and licenses are valid; implementing ISO 14001 requirements; ensuring compliance with EU standards; and monitoring pollution sources by means of mobile environmental laboratories .

(c) In 2000, ROMGAZ was unbundled in: ROMGAZ II for exploration and production, DISTRIGAZ Nord and DISTRIGAZ Sud for gas distribution, and TRANSGAZ for bulk transmission of gas . That unbundling is considered a highly satisfactory outcome and best practice of the project in line with the Gas Initiative of the European Union . Through a corporate restructuring and staffing, PETROM was reorganized, international accounting systems and MIS were implemented and acquisition of refineries and retail distribution took place . CONPET improved its operational efficiency by installing new SCADA and telecommunication systems, replacing 370 km of corroded pipelines, and rehabilitating pumping stations and storage tanks .

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

The project achieved only some increases in gas prices . The GOR was reluctant to accept the need for price increases after the affordability study but promised to raise them to WB /IMF levels by 2007. Perhaps more attention should have been paid to socio-economic impacts of price restructuring earlier in the project.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Highly Likely	Highly Likely	
Bank Performance :	Satisfactory	Satisfactory	But supervision seems to have been extraordinarily expensive at over US\$2 million for 14 missions, which averages at US\$145,000 per mission. This is explained by several ESW studies, technical specialists, and joint Bank /IMF missions, which were charged to the supervision budget.
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

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

7. Lessons of Broad Applicability:

(a) Since a Bank loan by itself does not provide sufficient influence on Government to take the most difficult restructuring and pricing policy decisions, the conditionality attached to IMF stand -by agreements has shown to be very effective in getting the Government to tackle some of the most difficult sector issues such as the nonpayment in the gas sector.

(b) The Bank should be ready to take advantage of all opportunities to push a reform agenda . In this project, the start of Romania negotiations for access to the EU in 2002 helped to expedite and harmonize petroleum sector policies with EU requirements and offered to the Bank the opportunity to provide advice to the Government on how to accommodate the EU's goals.

8. Assessment Recommended? ☒ Yes ☐ No

Why? Because the project achieved the complex restructuring of the Romanian petroleum sector comprising the establishing of a regulatory framework, the unbundling of the exploration, operation, transmission and distribution of oil and gas and its privatization . Taking into account the relevant core conditions of PSAL 2 and the leverage from the IMF Stand-by Program on restructuring and efficiency improvements in the gas sector, it would be

of great interest to assess to what extent the restructuring and private sector participation have improved the contribution of the petroleum sector to the development of Romania .

9. Comments on Quality of ICR:

The ICR complies with the Bank guidelines for ICRs . It presents a satisfactory description and evaluation of the projects achievements and outputs . However, the ICR did not report the actual project cost because the beneficiaries were unable to provide data on their own contribution to the project cost . Also, the main text of the ICR should have elaborated on the causes for the 42 months of extension of the Closing Date. From the comments on the ICR provided by CONPET, it can be inferred that the delays were caused by : (i) substantial changes to CONPET's component, which were not foreseen by the feasibility study or the project appraisal; (ii) lack of drawings, procedures and records on the pipeline transport system; (iii) suspension of loan disbursement during year 2000 because of conflict of interest in the awarding of CONPET's management contract; (iv) difficulties in implementing the physical components without affecting crude oil transportation; and (v) financial constraints and bureaucracy .