ICR Review
Operations Evaluation Department

Report Number : ICRR11084

1. Project Data:		Date Posted :	08/07/2001	
PROJ ID:	P003252		Appraisal	Actual
Project Name :	Petroleum Rehab	Project Costs (US$M)	48	18.9
Country:	Zambia	Loan/Credit (US$M)	30	4.5
Sector(s):	Board: EMT - Oil and gas (95%), Central government administration (5%)	Cofinancing (US$M)	15	13.9
L/C Number:	C2621			
		Board Approval (FY)		94
Partners involved :	European Investment Bank	Closing Date	06/30/2000	04/17/2000
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2. Project Objectives and Components

a. Objectives

The project's ICR states the project objectives as :

1. Restructure the petroleum industry to become more competitive and cost effective .
2. Develop policy through encouraging the establishment of a satisfactory regulatory framework and effective competition in petroleum importation and marketing .
3. Rehabilitate the Tazama pipeline as a least-cost reliable means of transporting oil to Zambia . [Tazama Pipelines Ltd is a parastatal oil company owned by ZIMCO, the Zambian Industry and Mining Corporation]
4. Strengthen Tazama's operational and financial management to ensure that the pipeline stays in satisfactory operational condition.
5. Improve infrastructure facilities to reduce the cost of petroleum product transport and distribution .
6. Provide a basis for private sector companies to facilitate exports by using surplus pipeline capacity .

- In the Development Credit Agreement the pipeline rehabilitation is the prime objective, placed ahead of any sector restructuring. The sector restructuring was however, clearly, a part of the Government's Letter of Development Intent, while the project contained covenants to meet restructuring and support the Ministry of Energy and Water Development (MEWD) in this task. At the time Bank was giving priority in its lending operations to sector reforms for increased competition and private sector participation .
- Although there was no formal restructuring of project objectives, there were several revisions to the project's design. One major change was in the role of the private Oil Marketing Companies Consortium (OMCC), returning responsibility for petroleum supply to Government, via a newly formed Zambia National Oil Company (ZNOC.)

b. Components

Total realized project costs of $ 18.9 million comprised:

1. Tazama Pipeline rehabilitation (84%)
2. Tazama Project Management (8%)
3. Tazama Institutional Strengthening (5%)
4. Zambia Oil Company (ZOC)/ ZNOC(3%)
5. MMEWD (.5%)

c. Comments on Project Cost, Financing and Dates

When the project was terminated the co-financier, the European Investment Bank (EIB), had disbursed $13.9 of a $15 million commitment, while the Bank had only disbursed $ 4.47 of a $30 million commitment. Most Bank funds were expended for technical assistance for institutional strengthening, while the EIB's were used to support the technical appraisal and terminals at each end of the pipeline (the other in Dar Es Salaam.)

3. Achievement of Relevant Objectives:

The project outcome was unsatisfactory and the Bank canceled the project after four years of unsatisfactory progress in project implementation. The outputs by components were:

1. **Pipeline Rehabilitation**

- The objective was not achieved. The most significant achievement was completion of the technical assessment of the 1700 km pipeline, but after a long delay.
- **Improving Tank Farms** - the objective was not achieved even though the physical works were partially completed. The tanks cannot be used unless the works are finalized.

2. **Improving and Expanding the Ndola Terminal** - this was marginally achieved by transferring management to an experienced company. The extensive physical components were not even bid by the time the project entered a suspension stage.

3. **Sector Policies** - only one of four expected outputs was produced by the project - a study for creation of a Technical Cell within MEWD. A transparent formula for regulated prices and tariffs was developed but not a regulatory framework. The cell itself which was to address pricing and reforms issues, as well as monitoring sector operations, was not set up. By the end of the project neither regulatory framework nor pricing policy were functioning.

Institutional Strengthening - the only achievement under this component was the recruitment of three line managers. Limited progress was made on detailed design of the rehabilitation and conclusion of a performance based contract for managing Tazama did not take place, and hence the project could not adhere to any of the key indicators for improving overall performance. Tazama has not been in operation for two years following a fire at the Indeni Refinery.

At appraisal an economic analysis had estimated an economic return to pipeline rehabilitation in excess of 100%. Since the required physical works were never finished, although $ 18 million was spent, the ex-post ERR is not applicable.

4. Significant Outcomes/Impacts:

1. After the fire at Indeni the Government allowed private oil marketing companies to import again and did not enforce price ceilings. As a result ZNOC's market share has declined from 100% to 10%.
2. Ending the project turned out to be a catalyst for dialogue with the Government for development of a new project. After cancellation of the project, negotiations between Bank and Borrower resumed for the June 2000 Fiscal Sustainability Credit. An action plan for sector reform was issued in early 2001.

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

1. Quality at entry was unsatisfactory as the details of the reform were never fully agreed with Government, the SAR did not indicate a comprehensive evaluation of lessons learned or of risks, and the Bank left key institutional reforms as conditions of effectiveness. When Government did not fulfill the conditions the Bank waived them after 18 months.
2. The Bank should not have approved the project before the government had confirmed agreements with the private oil marketing companies, who were to have a commitment to establish the OMCC. By subsequently agreeing to go ahead without agreement between Government and the private oil companies, the Bank and the Borrower undermined the project's design and its objectives.
3. Government failed to make sure implementing agencies had the institutional and financial means to implement the project as agreed.
4. The Bank was too accommodating to Government, declaring the credit effective before the Borrower had met a single key condition. The Government also made things difficult by going back on its previous commitments.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	There was one significant positive outcome - completion of the technical assessment of the pipeline.
Institutional Dev.:	Negligible	Negligible	
Sustainability:	Unlikely	Highly Unlikely	There was nothing to sustain.
Bank Performance:	Unsatisfactory	Unsatisfactory	At least the Bank closed the project and started negotiation for a new one.
Borrower Perf.:	Unsatisfactory	Highly Unsatisfactory	Government reneged on commitments and failed to make needed funds available to Tazama, who in turn managed to do little with what financial resources they had.
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:

1. The desire to take the project to the Board in 1994 combined with the urgent need for pipeline repair made it difficult to get Government to make fundamental changes in the structure of the petroleum industry prior to Board Approval. The private companies, who the original project design made key agents of change, were not party to any project agreements - the project was not really ready at approval.

2. Omission of the refinery, a critical part of the petroleum supply chain, from the project was a major design deficiency. Government decided to repair the refinery, after a fire, which would then have needed the pipeline to provide crude petroleum. At this stage a better choice would have been to use the pipeline for refined petroleum - a task it was better suited to anyway. Government chose to repair the refinery.
3. An objective criterion for restructuring or cancelling a project, defined at the outset, could have helped clarify the relationship between the Bank and the Borrower, facilitating supervision.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

It does a good job of explaining the mistakes.