

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: Energy Division, SERD

TA No., Country and Name		Amount Approved: \$1,000,000	
TA 4901-CAM : Institutional Strengthening of the Cambodian National Petroleum Authority		Revised Amount: not applicable	
Executing Agency Cambodian National Petroleum Authority	Source of Funding Japan Special Fund	Amount Undisbursed: \$58,925.13	Amount Utilized: \$941,074.87
TA Approval Date: 18 Dec 2006	TA Signing Date: 14 Mar 2007	Fielding of First Consultant: 10 Jul 2007	TA Completion Date Original: 31 Mar 2008 Actual: 31 Dec 2010 Account Closing Date Original: 31 Mar 2008 Actual: 16 Jun 2011

Description In 2005, the US oil company, Chevron, announced that it had found oil in Block A offshore Cambodia. Initial expectations were that a significant discovery of between 400-700 million barrels had been found, along with some 3 to 5 trillion standard cubic feet of natural gas, which could be developed and placed into production by 2010 and potentially providing the Government with estimated revenues of between \$500 million to \$1 billion per year as compared to the Government's annual revenue of \$665 million in 2005. With the possibility of such a significant boost to Government revenue, considerable concerns arose about the impact of the oil sector on the economy and the efficient management of the sector administration and its fiscal results. The Government requested a policy advisory and technical assistance for its Cambodian National Petroleum Authority (CNPA), which is responsible for the management, administration and regulation of the petroleum sector. This was consistent with the ADB's country strategy and program (2005-2009), which focused on poverty reduction and continued operations to support the development of infrastructure and promotion of an enabling environment for private sector participation. The TA sought to strengthen CNPA's capacity to manage and develop oil field operations in order to optimize resource utilization and to manage the environmental monitoring of oil and gas exploration and production activities.

Expected Impact, Outcome and Outputs The expected impact was the optimal exploitation of oil and gas resources in Cambodia through the outcome of CNPA's efficient management of field development and production stages of petroleum operations through the adoption of appropriate policies and actions stimulating investment in the sector by 2009. Specific outputs were to build the capacity of the CNPA to undertake: i) economic modeling; ii) production and petroleum costs accounting; iii) hydrocarbon data management for contract management and promotion of additional exploration; iv) production plan evaluation; v) qualification and selection of foreign and national service contractors through transparent and competitive procurement procedures; and vi) environmental management and inspection of petroleum operations. Additionally, the TA intends to plan the development of physical infrastructure required for the petroleum industry, including a domestic supply base.

Delivery of Inputs and Conduct of Activities The major input was the engagement of a consulting firm (UNSW Global). The contract was signed on 6 July 2007 in an amount of \$674,000 for a provision of 21.5 person-months of international and 8 person-months of national consultants by 15 July 2008. Actual contract was closed on 15 August 2009 with a provision of 21.5 person-months of international and 5 person-months of national consultants. The 3 person-months of National Policy and Legal Expert was not engaged as envisaged. The final contract amount was \$582,902. Terms of reference for each expert were reasonably well-defined though inadequate emphasis was placed on the interaction with CNPA counterparts and assistance to CNPA in the conduct of its operations. The performance of the consulting firm was satisfactory. But, the performance of an Upstream Oil and Gas Expert was unsatisfactory and he was replaced during implementation due to a difficult working relationship with EA. In addition, the Management of the Executing Agency showed a marked lack of cooperation with the consulting firm to the point of restricting vital information and failing to encourage wider CNPA staff participation in the program. Specifically, the Executing Agency failed to take ownership of the TA during the term of deployment of firm consultant to CNPA, and demonstrated a lack of willingness to initiate institutional development of CNPA as well as to broaden the ownership of the petroleum sector to different parts of the government including the Ministry of Economy and Finance (MEF) on issues of taxation and fiscal regimes, Ministry of Environment on environmental safeguards, and the Council for the Development of Cambodia on management of the petroleum private investors. Only after the presentation of the final report to the Chairman of the CNPA and intensive consultations by development partners (NORAD, UNDP, USAID, and World Bank), facilitated by the ADB Cambodia Resident Mission (CARM), did the Executing Agency react to institutional recommendations by revamping the CNPA management structure, implementing change business process, and broadening the ownership of the petroleum sector to include the key actors in the government. Upon conclusion of the consulting firm assignment, a Petroleum Advisor was engaged as an individual consultant to provide petroleum sector advice to guide, assist and mentor the CNPA on a needs basis for 9.1 person-months over

a 16-month period in an amount of \$254,959. The Petroleum Adviser was well-received by the new CNPA management and its staff, and his performance was satisfactory.

The TA failed to provide any assistance on the physical infrastructure requirements, particularly the development of a domestic supply base, though such matters are normally beyond the responsibility of a national petroleum authority, and did not fit well with the institutional strengthening focus of the TA. Whilst there was some work on defining hydrocarbon data requirements, the notions of defining a fully fledged corporate hydrocarbon database were overly ambitious as even the most rudimentary aspects of data management such as data inventories had not been made by the CNPA. IT equipment for conducting CNPA's business was procured in lieu of elaborate hydrocarbon data management systems. The TA also supported the development of accounting and financial management capacity of CNPA. Moreover, CNPA was also the recipient of considerable corporate assistance from industry partners for the provision of some workstations and data storage equipment obviating the need to use the TA for such. The TA completion date was extended four times (31 Mar 2009, 30 Sep 2009, 20 Apr 2010, and 31 Dec 2010 primarily because CNPA needed the technical advice from ADB in regard to the ongoing negotiations with the petroleum companies. This greatly assisted CNPA in negotiating with the oil companies on their offshore field development programs. The performance of ADB and the EA was satisfactory.

Evaluation of Outputs and Achievement of Outcome The consulting firm produced a Final Report in November 2008 which documented the thematic petroleum sector work of their team and provided 24 institutional recommendations for CNPA's further development. Duty statements for the entire staff were also devised together with a revised institutional structure and draft strategic objectives. The recommendations proved to be most useful and CNPA commenced using them as a measure of its own institutional strengthening performance under its revised management structure. Progressive advances were made by CNPA through 2009 and 2010. By early 2010, it was estimated that CNPA had attained 23% progress against these recommendations and that later in the year its attainment was 38%. CNPA has performed the following activities:

- Allocation of Blocks: further Blocks were granted and Petroleum Agreements entered into since 2006 with respectable petroleum companies from a variety of nations, notably with China National Offshore Oil Corporation; PTT Exploration and Production Public Company Limited, Thailand; MedcoEnergi, Indonesia; PetroVietnam; and Japan Oil, Gas and Metals National Corporation.
- CNPA has sought to clarify confusion between the Law on Taxation and the provisions of some petroleum agreements and has worked to finalize the new draft comprehensive Petroleum Law and the draft expanded petroleum provision of the Law on Taxation. It has thus sought to devise appropriate policies and actions stimulating investment in the sector.
- Training programs were conducted by TA Consultants who gave regular seminars on select topics relevant to CNPA's business agenda. Thus, training commitments of the petroleum contractors were better utilized by CNPA.
- CNPA had a sound and working economic model provided to it by the TA consultants, but later elected to develop its own open-book MS Excel model under the tutelage of the Petroleum Adviser; this new model maps the current Cambodian petroleum regime thoroughly and can readily accommodate changes. In the area of hydrocarbon database management, more attention has been paid to fundamentals of data receipt storage and inventorying, whilst the focus of IT equipment deployment has been to maintain business functionality.

Overall Assessment and Rating Partly successful, on account that the TA implementation was extended for three years from the original closing period and as a result of CNPA's slow reception and readiness from 2008 and 2009 to accept the challenges of institutional and organizational changes.

Major Lessons For the project requiring institutional changes and capacity building, there should be more close consultations with the EA and ADB project team in the project design preparation so that the EA has full ownership of the Project and is committed to implement the changes.

Recommendations and Follow-Up Actions Despite significant difficulty during most part of TA implementation, CNPA has transformed to become an open and dynamic institution with improved institutional arrangement, work process, and better staffing which was toward the latter part of the TA. Given significant needs in capacity development and CPNA's urgent needs in dealing with international petroleum investors, continued support for CNPA is necessary but in a more focused and needs-based manner.

Prepared by: **Jong-Inn Kim**

Designation: **Lead Energy Specialist, SEEN**

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