



1. Project Data:		Date Posted : 06/14/2004	
PROJ ID: P008287		Appraisal	Actual
Project Name: Gas Rehab	Project Costs (US\$M)	24.6	18.5
Country: Azerbaijan	Loan/Credit (US\$M)	20.2	17.2
Sector(s): Board: EMT - Oil and gas (100%)	Cofinancing (US\$M)		
L/C Number: C2923; CP986			
	Board Approval (FY)		97
Partners involved :	Closing Date	06/30/2001	06/30/2003

Prepared by :	Reviewed by :	Group Manager :	Group:
Kavita Mathur	Fernando Manibog	Alain A. Barbu	OEDST

2. Project Objectives and Components

a. Objectives

The objectives of the project were to:

- (a) promote more efficient use of gas and reduce non-technical losses by replacing obsolete and inaccurate metering, improving measurement instrumentation, installing meters where none presently exist, and establishing associated meter testing facilities;
- (b) improve the physical accounting for gas and encourage an improved commercial basis for gas trading through the upgrading of metering and instrumentation;
- (c) ensure the efficient operation and preserve the value of existing pipeline assets through investments in cathodic protection, gas analysis and leak detection equipment; and
- (d) support the commercialization of Azerigaz and further development of the sector through technical assistance, training programs and the acquisition of modern office equipment.

b. Components

The project included the following components:

- metering (appraisal US\$ 11.0 million, actual US\$ 9.7 million)
- cathodic protection (CP) system rehabilitation (appraisal US\$ 4.8 million, actual US\$ 5.1 million)
- analytical equipment (appraisal US\$ 1.4 million, actual US\$ 1.1 million)
- corporatization support (appraisal US\$ 2.4 million, actual US\$ 2.6 million)

c. Comments on Project Cost, Financing and Dates

The total actual cost of the project is US\$ 18.5 million compared to appraisal estimate of US\$ 24.6 million. At project closing, US\$ 17.2 million was disbursed and US\$ 1.9 million was cancelled. The project closed on June 30, 2003, two years after the original closing date.

3. Achievement of Relevant Objectives:

The objective of promoting a more efficient use of gas and reducing non-technical losses was partially achieved.

- Azerigaz installed new meters for all of its large and medium sized customers and meter stations were rehabilitated to promote efficient use of gas. The government, however, failed to support payment discipline. For the household and small customers, 55,000 meters were procured but only 6,216 meters were installed. Metering network is not yet complete and many households are still being billed on the basis of consumption estimates.
- Azerigaz technical losses were halved from an estimated 15% at inception to 7% at the end of the project. However, this reduction was only partly due to the project. The ban on gas imports was partly responsible for reduction in rate of leakage as this resulted in lowering the pressure in the pipeline network.

The objective improving the physical accounting for gas was largely achieved (see the first bullet above).

The objective of ensuring the efficient operation and preserving the value of existing pipeline assets was achieved.

- The project resulted in the installation of 223 cathodic protection stations and 33 drainage stations.
- A new gas laboratory of international standards was constructed to verify gas quality and heat content of the gas supply from State Oil Company of Azerbaijan (SOCAR).
- To detect leaks, the Azerigaz staff is regularly using the leak detection equipment. A large range of leak detectors was purchased including hand-held gas detectors, portable gas detectors, calibration unit for detectors, and two vehicles suitable for high-speed searches for leaks.

The objective of improving the commercial focus of Azerigaz was not achieved.

4. Significant Outcomes/Impacts:

- The capacity to produce more accurate calibration efficiently has been enhanced. Two fully automatic meter testing stations were procured under the project and are operational.
- The speed of meter installation has been increased. With the purchase of three mobile workshops to install new meters and rehabilitate old ones, meters can be installed within 2 to 3 hours compared to one day. Furthermore, calibration of meters can now be done in one hour compared to 2-3 days.
- Public safety has been improved through reduced risk of explosion due to undetected leaks.

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

- Quality at entry is poor. The Bank made an incorrect assumption that the project would provide sufficient leverage to carry out the gas sector reforms.
- The project did not comply with financial covenants dealing with improved collection rates and achieving minimum rates of return.
- Training of Azerigaz staff in planning, budgeting, finance accounting and marketing was not implemented.
- The government lacked commitment to support payment discipline and rationalize the tariff structure.
- The computer software and hardware for network modeling was not acquired.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Moderately Unsatisfactory	[the ICR's 4-point scale does not provide for a "moderately unsat." rating]. OED's rating is based on the partial or full achievement of some of the project's physical objectives. The project's objective of improving the commercial focus of Azerigaz was not achieved.
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
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:

The key lesson that emerges from the project is that the investment credit instrument by itself does not provide sufficient leverage to bring about difficult restructuring and pricing reform. The conditionalities attached to the ongoing adjustment credit (SAC II) were more effective in tackling some of the sector issues.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The overall quality of the ICR is satisfactory. However, there are three shortcomings: (i) the ICR does not discuss the reasons for the extension of the project's closing date by two years, (ii) the ICR does not explain the lower total project costs, and (iii) the section on the lessons learned is parsimonious, and should have included one that is more substantively related to the Bank's reform dialogue with the Government.