



1. Project Data:		Date Posted : 08/15/2001	
PROJ ID: P044830		Appraisal	Actual
Project Name : Oil Institution Building Ta	Project Costs (US\$M)	1.50	1.42
Country : Georgia	Loan/Credit (US\$M)	0.95	1.35
Sector(s) : Board: EMT - Oil and gas (100%)	Cofinancing (US\$M)	0	0
L/C Number : C2944			
	Board Approval (FY)		97
Partners involved : None	Closing Date	12/31/1999	12/31/2000

Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The objective of the project was to enhance the capacity of Georgian personnel to undertake international negotiations in respect of oil pipeline transit .

b. Components

(i) Feasibility Study (by international consultants collaborating with Georgian counterparts) of a major oil export pipeline from Baku, Azerbaijan to Supsa, Georgia and of related terminal and storage facilities at Supsa . This study was intended to provide on-the-job training to Georgian personnel in project economics, pipeline tariff determination, environmental audit, legal review, project management and project financing, in order to enhance Georgian capacity to negotiate transit terms with private investors .

(ii) Training Fund to finance Georgian participation in formal training courses in Georgia and abroad, and on -the-job training in international companies in the oil industry . Such courses were to include: (a) pipeline transport economics (including principles of taxation); (b) international contract negotiation skills, (c) environmental impact assessment (including stakeholder analysis and public consultation); (iv) legal principles of transcountry pipeline construction and operation; (e) principles of oil accounting, general accounting and auditing; (f) project financing; (g) oil marketing and (h) oil industry in English language .

(iii) Negotiation Advisors to provide specialized legal and financial advice prior to and during negotiations for oil transit, as well as to assist in preparing related contractual documents .

(iv) Project Management Services to be provided by GIOC (Georgian International Oil Corporation) in kind and to include support services, office facilities and the provision of maps, serial photographs, and other data .

c. Comments on Project Cost, Financing and Dates

Project Cost: At appraisal, the project cost was estimated to cost US\$ 1.5 million against actual cost of US\$ 1.42 million.

Financing: Actual Bank financing was US\$ 1.35 million and local costs were borne by GIOC in the form of support services, office space and facilities, estimated to be about US\$ 70,000. The feasibility study exceeded estimated cost, resulting in the Training Fund being assumed by other donors .

Dates: The credit closing date had to be extended by one year due to : (i) delayed start of negotiations on the Baku-Tbilisi-Ceyhan Major Export Pipeline (MEP) project and (ii) unexpected environmental problems relating to the Samgori-Batumi pipeline that had to be resolved in accordance with international standards .

3. Achievement of Relevant Objectives:

To enhance the capacity of Georgian personnel to undertake international negotiations in respect of oil pipeline transit: *Achieved.* The MEP feasibility study, and the negotiations for the Baku -Ceyhan Major Export Pipeline project were successfully completed. The signed HGA (Host Government Agreement) for the Pipeline project differed substantially from the original draft submission to Georgia by the private investors . The enhancements achieved through the HGA negotiating process can be directly attributed to the capacity -building and advisory services under the project. Overall, the achievements of the project were made possible by the full implementation of all components as follows:

(i) Feasibility Study: Completed in September 1999 and provided very substantial on-the-job training to GIOC staff. It identified legal reforms needed in the areas of environmental liabilities and land acquisition with due compensation .

These legal reforms were subsequently enacted, and strengthened the legal agreements to the mutual benefit of Georgia and the private investors.

(ii) **Training Fund:** Formal training courses were undertaken, and were financed by donor funds .

(iii) **Negotiations Advisors:** International and local advisors were hired to advise on the legal, financial and technical aspects of transnational pipelines, and provided critical assistance to the negotiations of the MEP and related agreements.

(iv) **Project Management Services:** Terms of reference for all consultants were prepared by GIOC, with the assistance of Bank staff. GIOC was closely involved with the work of the consultants and participated in reviews of studies and reports produced by international consultants .

4. Significant Outcomes/Impacts:

- The project succeeded in significantly enhancing the negotiating capabilities of GIOC, a relatively new organization in a country with very little prior exposure to the oil industry and the international private sector in general. The experience gained by GIOC staff during the preparation of the MEP feasibility study and negotiations will be an asset for future negotiations on the East -West gas transit pipelines. GIOC has already been given the responsibility to negotiate a \$ 2 billion gas transit pipeline project with private investors .
- Though it was not explicitly part of the original objective, the project helped identify legal reforms needed in the areas of environmental liabilities and land acquisition with due compensation . These legal reform were subsequently enacted and strengthened legal agreements to the mutual benefit of Georgia and the private investors.

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

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Highly Satisfactory	Highly Satisfactory	The project fully met its objective in a challenging political and institutional environment
Institutional Dev .:	Substantial	Substantial	
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf .:	Highly Satisfactory	Highly Satisfactory	The government showed a high level of commitment during the project as demonstrated by the support given to GIOC
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 project reinforces the following elements as crucial to a successful operation : (i) minimal changes in the composition of the Bank's task team; (ii) continuous and effective support from management, especially in a situation fraught with political sensitivities; (iii) intensive supervision supplemented by regular communication; and (iv) fostering a high level of coordination and trust between the Bank team and the counterpart in the borrowing country .

8. Assessment Recommended? Yes No

Why? This is an instance of a project implemented successfully in a transition economy, with a high level of government commitment and continuous engagement on the part of the Bank . This project faced some of the same difficulties as the Power Rehabilitation project in Georgia . It would be instructive (apart from being cost-effective) to combine an audit of these projects with other relevant projects in the same sector and region, for drawing broader lessons.

9. Comments on Quality of ICR:

The quality of the ICR is satisfactory, but it provides few clues about the lessons arising from the outstanding achievement of the project. Also, the Borrower's ICR provides few insights into how well the project performed . Further, project cost data in ICR Annex 2 are not consistent with the data in the Memorandum of the President .