



1. Project Data:		Date Posted : 08/20/2001	
PROJ ID: P008282		Appraisal	Actual
Project Name: Petroleum TA	Project Costs (US\$M)	22.86	10.37
Country: Azerbaijan	Loan/Credit (US\$M)	20.80	9.62
Sector(s): Board: EMT - Oil and gas (92%), Law and justice (8%)	Cofinancing (US\$M)	0	0
L/C Number: C2708; LP192			
	Board Approval (FY)		95
Partners involved :	Closing Date	11/30/1999	11/30/2000

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

a. Objectives

- (i) Accelerate foreign private investment and financial participation in petroleum exploration and production through providing TA to SOCAR (State Oil Company of Azerbaijan Republic), particularly for restructuring the Guneshli field;
- (ii) Strengthen petroleum subsector institutions through development of petroleum legislation, training, and improvements in information systems; and
- (iii) Prepare investment projects in the petroleum subsector, through joint studies between SOCAR and foreign advisers.

b. Components

- (i) Provision of resources to SOCAR to recruit financial, legal and technical advisors for : (a) formulation and management of a project for rehabilitation of the Guneshli field, (b) exploration and development of other fields and construction of related infrastructure, (c) legal studies on Caspian Sea boundary determination, (d) development of an oil export pipeline, and (e) petroleum licensing and exploration promotion (base cost: US\$14.6 million);
- (ii) Development of a legislative and fiscal framework for petroleum exploration and production (US\$0.45 million);
- (iii) Institutional strengthening of SOCAR through training, and introduction of information and communication systems (US\$1.5 million);
- (iv) Detailed investment and restructuring studies of the older oil fields, gas processing facilities and oil export infrastructure improvements (US\$3.35 million);
- (v) TA for a Project Implementation Unit (PIU) covering financial, procurement and project management services (US\$0.75 million); and
- (vi) An unallocated amount of US\$1.0 million (foreign currency cost) to cover additional project preparation activities and advisory services in the energy sector.

c. Comments on Project Cost, Financing and Dates

Project Cost: Actual project cost was only US\$ 10.27 million against the projected US\$22.86 million. The shortfall was partly due to cancellation of 11 percent of the credit amount due to misprocurement of an MIS system, and cancellation of the undisbursed amount of US\$ 5.78 million in April 2001.

Financing: IDA funds were the main source of finance.

Dates: The actual closing date of 11/30/2000 was one year behind the original closing date of 11/30/99. By the original closing date, only 37 percent of the credit had been disbursed, and rose to 47 percent by the time of actual closure. These delays indicate that the projections in Ministry of Petroleum were probably over-ambitious for a first project in Azerbaijan.

3. Achievement of Relevant Objectives:

(i) **To accelerate foreign private investment and financial participation in petroleum exploration and production through providing TA to SOCAR (State Oil Company of Azerbaijan Republic), particularly for restructuring the Guneshli field :** *Partly achieved.* The ICR states that the Government of Azerbaijan (GOA) was extremely successful in attracting foreign petroleum investment to the most promising areas offshore and onshore during the project period, but that it is not always easy to assess the contribution from the project in isolation from the broader impact of foreign investment. The sub-objective of attracting foreign investment to the Guneshli field was not achieved, though

there was progress in background work for rehabilitation of the field .

(ii) **To strengthen petroleum subsector institutions through development of petroleum legislation, training, and improvements in information systems** : *Partially Achieved*. The project was unable to anticipate GOA's decision early during project implementation not to pursue petroleum legislation. The other sub-objectives of upgrading the skill of SOCAR staff and strengthening Information Technology (IT) systems -- including the misprocured MIS system -- were partly achieved.

(iii) **Prepare investment projects in the petroleum subsector, through joint studies between SOCAR and foreign advisers** : *Achieved*. Substantial investment studies were prepared on old onshore and offshore fields .

4. Significant Outcomes/Impacts:

The SOCAR audit funded under the project marked an important outcome in the evolution of SOCAR as a company, forcing greater transparency, and reporting up to international standards .

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

(i) Government of Azerbaijan (GOA) decided early in the project's implementation not to develop petroleum legislation under this project (GOA opted for PSAs or Product Sharing Agreements instead), limiting the impact of the project outside SOCAR.

(ii) Interference from GOA, and changes in senior personnel impaired the ability of SOCAR to implement the project .

(iii) Weak governance and limited regulation impeded IDA's ability to find suitable counterparts in the government .

(iv) The long time required to hire consultants under IDA procedures prevented SOCAR from reacting to rapidly changing conditions.

(v) IDA's supervision suffered at times because some task managers had limited specialist expertise in oil and gas, and also did not obtain sufficient support from IT specialist staff, when needed .

(vi) In the bidding and misprocurement of the MIS system, IDA's supervision could be faulted since not enough specialized staff resources were committed to reviewing the consultants' report and the bidding documents .

(vii) IDA did not follow up key policies suggested by the investment studies to attract investors .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	(i) No private investment was attracted to the Guneshli field, though there was progress in its rehabilitation; (ii) The proposed petroleum legislation was not drafted by GOA; (iii) Misprocurement was declared for the MIS component of TA related to IT systems.
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Non-evaluable	There is no satisfactory evidence to expect the flow of private investment to the petroleum sector to be sustainable, that can be attributed to the project's interventions.
Bank Performance :	Satisfactory	Unsatisfactory	Overall unsatisfactory, albeit marginally so, on account of the following. Quality at entry suffered from inadequate assessment of Borrower commitment and needs (though it is recognized that the situation in the country was complex). IDA was also found wanting in quality of supervision as well as providing advice in the procurement process, as pointed out in section 5 above. In particular, quality of supervision was affected by frequent change of task managers and the limited specialist expertise of some of them in oil and gas.
Borrower Perf .:	Satisfactory	Unsatisfactory	Borrower's commitment during implementation of the project was limited. There were frequent changes of top functionaries at SOCAR reflecting the low priority accorded by the government to its effective functioning. The Project Implementation Unit (PIU) was not able to

		work effectively with SOCAR, adversely affecting implementation.
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:

- (i) First-time projects in a country or sector, operating in a complex environment, can benefit from flexibility in adjusting the contents of the project components .
- (ii) There should be adequate budgetary provision for effective supervision of all components of a project .
- (iii) When made, changes in priorities need to incorporate transition arrangements to sustain excellence in management and activities that fall out of favor .
- (iv) In small TA projects implemented in a country with weak institutions undergoing very rapid and substantial changes, it can be difficult to assess the specific impact of such projects, though every effort must be made to do so .

8. Assessment Recommended? Yes No

Why? This is a first-time TA project in a country which presented a unique set of political, administrative and coordination issues . A closer study of the experience may yield valuable lessons for improving linkages between TA, ESW and the Bank's country strategy .

9. Comments on Quality of ICR:

The ICR analyzes the project experience in considerable detail and points out both positive and negative aspects, including internal coordination issues .