



1. Project Data :	
OEDID:	L3252
Project ID:	P010360
Project Name :	Corporate Restructuring and System Expansion
Country :	Pakistan
Sector:	Oil & Gas Transportation
L/C Number:	L3252-0 and L3252-1
Partners involved :	
Prepared by :	Nils Fostvedt, OEDCM
Reviewed by :	Alain A. Barbu
Group Manager :	Gregory K. Ingram
Date Posted :	08/17/1999

2. Project Objectives, Financing, Costs and Components :

Objectives : The borrower was the government-owned Sui Northern Gas Pipelines Limited (SNGPL). The project objectives were to (a) place SNGPL on a sound longer term financial and technical footing so that it could manage effectively an increasing supply of gas to the domestic market, and (b) to develop the physical gas infrastructure in the northern parts of Pakistan, thus promoting the substitution of gas for higher -value imports of liquid fuels.

Financing : Total project costs of \$624 million were partially financed by two IBRD loans (the original loan of \$130 million, a supplemental loan of \$60 million, less cancellations of \$8.6 million).

Costs : The project costs were higher than the \$547 million estimated at appraisal, on account of increased investments (transmission lines, gas connections and transmission and distribution SCADAs).

Components : The project aimed at strengthening SNGPL - one of the two principal gas transmission systems - by (a) turning the utility from a government-controlled into a private-majority owned corporation, in order to make the utility more autonomous and enhance its resource mobilization capability, and (b) strengthening its technical capabilities. The project would also (c) expand SNGPL's infrastructure for the purification, transmission and distribution of gas at least cost, thus promoting the substitution of gas for higher value petroleum products in the northern parts of the country, and (d) rationalize the consumption and supply of gas through pricing and demand management.

3. Achievement of Relevant Objectives :
The objectives were only partially met, particularly on the policy and institutional fronts (see below)

4. Significant Achievements :
The project expanded the capacity of the transmission system from 450 MMCFD to 1,000 MMCFD (versus 800 originally planned), and the target number of households and businesses to switch to gas in place of imported kerosene was exceeded by about 70%, thus promoting the substitution of gas for kerosene .

5. Significant Shortcomings :
SNGPL did not develop as planned. The privatization strategy was inadequately prepared at entry and suffered from weak government commitment, the lack of an adequate regulatory framework and of the necessary gas pricing reforms, the resistance of vested interests, and the modest absorptive capacity of the local financial market . Also, SNGPL's finances have been affected negatively since the consumer tariffs were not adjusted to ensure cost recovery, and SNGPL has become increasingly overstuffed . However, the government-controlled shareholding has been reduced to 60%, and further steps to proceed with the privatization of SNGPL are under preparation and could possibly still be carried out.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Partial	Modest	
Sustainability :	Uncertain	Uncertain	

Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Deficient	Unsatisfactory	The ICR rates the government's performance as highly satisfactory during preparation, but deficient during implementation, due to its inability to carry out the necessary sector reforms . The latter must be given the greater weight for the overall rating.
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

Important sector reforms - such as a privatization program - should be prepared so as to ensure sustained commitment of the government and the borrower, taking into account the impact and attitude of major stakeholders . The privatization program for a major utility should be agreed prior to project inception, and should integrate appropriate regulatory reforms, pricing policies, measures to help ensure contractual stability, consideration of a possible need for strategic investors, and a realistic analysis of the capacity of the targeted capital markets .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is generally satisfactory, and it addresses all major aspects of the project in reasonable detail . However, the discussion of the pricing issues (and implications) could have been more clear, there was inadequate information about the non-Bank financing of the project, and there was no discussion around the non -pricing aspects of demand management that were contemplated at appraisal .