

ICR Review
Operations Evaluation Department

1. Project Data :

OEDID:
OEDID : L2981
Project ID : P004904
Project Name : Third Power Project
Country : Algeria
Sector : Electric Power & Other Energy Adjustment
L/C Number : Loan 2981-AL
Partners involved : Exim Bank of Japan
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2. Project Objectives, Financing, Costs and Components :

The Third Power project, supported by a loan for US\$ 160 million equivalent was approved in FY 88 and closed 18 months behind schedule in FY97. A total of US\$23.6 million was canceled. Cofinancing of US\$86.5 million was provided by the Exim Bank of Japan and the undisbursed amount of US\$ 11.8 million was canceled. The appraised cost of the Third Power project was US\$ 391.2 million and the actual cost was US\$ 313.7 million. The primary objectives of the Third Power project were to restructure and strengthen the financial position of the National Power and Gas Company (SONELGAZ), help implement major investment in the power system, and improve SONELGAZ 's operational performance. Specific components included : (i) transmission lines and substations; (ii) training and vehicles; and (iii) studies in the areas of manpower development and financial management, loss reduction, and combined-cycle technology. Over 86 percent of project financing was allocated to the purchase of equipment and materials for transmission lines, transformers and switching substations and the rest to training and studies .

3. Achievement of Relevant Objectives :

Implementation of the Third Power project was adversely affected by the internal security situation in the country which slowed down physical implementation, and inflation and currency devaluation which eroded tariffs and burdened foreign debt service . Moreover, lack of familiarity of SONELGAZ with Bank guidelines delayed procurement. Despite these difficulties and thanks to the two -year extension of the loan closing date the Third Power project achieved its physical objectives fully but to a lesser extent its financial and institutional development objectives. During most of project implementation, the Borrower focused its efforts on the implementation of physical

components. Only towards the end did the Government begin to focus more on the restructuring and financial strengthening of SONELGAZ and shifting policy toward enabling private sector participation in power generation .

4. Significant Achievements :

The most significant achievements of the Third Power project were the construction of eight 220 kV transmission lines totaling 512 km, the building of seven 220 kV substations and the installation of about 2,180 MVA in high voltage power transformers. Additionally, the completion of the Loss Reduction Study and the Combined - Cycle Study is helping SONELGAZ increase the efficiency of its technical operations and optimize generation expansion plans.

5. Significant Shortcomings :

The Third Project was not able to improve the financial position of SONELGAZ as planned because of the company's lack of financial autonomy, insufficient cost recovery through tariffs -- which needed approval of a politically motivated Government reluctant to adjust them -- and enforce remedies to abate accounts receivable .

This was and continue to be reflected in non -compliance with the financial covenants on self -financing, accounts receivable, and debt service ratio . Additionally, the MIS and Accounting System aimed at strengthening SONELGAZ 's operations was expected to be operational only by December 31, 1997 with a delay of more than 6 years -- it was due by June 30, 1991.

□6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome : Satisfactory		Marginally Satisfactory	Mainly on account of the satisfactory (though delayed) completion of all project's physical components. The strengthening of SONELGAZ's finances was not achieved.
Institutional Dev .: Substantial		Modest	Some progress was made in strengthening planning, management and engineering in SONELGAZ but little headway was made in increasing the company's financial autonomy.
Sustainability : Likely		Uncertain	Sustainability of physical components is reasonably assured. But the expected sustained improvement of SONELGAZ's financial position will depend heavily on the successful implementation of its restructuring (together with the enacting of a revised electricity law) and tariff adjustments to recover cost of service in full in a timely manner to account for inflation and currency exchange variations.
Bank Performance : Satisfactory		Satisfactory	
Borrower Perf .: Satisfactory		Satisfactory	The Government's reluctance to authorize tariff increases and give operational autonomy to SONELGAZ somewhat mars the latter's satisfactory performance in

implementing the project's physical components.

Quality of ICR :

Satisfactory

7. Lessons of Broad Applicability :

Full ownership of the institutional and policy objectives of the project by the Government and the implementing

agency needs to be tested at the outset of the project by requiring them to carry out tangible reforms actions before

Board approval. Otherwise, the Government and the implementing agency may later focus most of their attention on

the carrying out of the physical components of the project .

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR is satisfactory. In particular, it includes the borrower's project implementation report, the aide m émoire of

the ICR mission, and a plan for future operation of the project . The plan is well focused on enabling private

participation in the power generation business and a revision of the electricity law . The ICR could have been

enriched by including: (a) projected financial statements of SONELGAZ to better assess the likeness of the financial

sustainability of the project; and (b) detailed data used in preparing the stream of costs and benefits in Table 9:

Economic Analysis, and sensitivity to the consumer surplus value (because of the marginal 9 percent IERR

calculated for the project). Also, paras. xiii and 20 of the ICR state that "the Bank supervised the project every 6

months," whereas, in fact, there was on average less than one supervision mission per year as it can be concluded

from Table: 12 Bank Resources - Missions, which shows a total of 7 supervision missions during the 96 months

elapsed from June 1989 to June 1997, at which time the ICR mission took place .