

## SBF Project Implementation Monitoring Report

### Turkey: Turkey Gas Storage Expansion Project

#### 1. Project Information

|                               |   |                    |   |
|-------------------------------|---|--------------------|---|
| Project ID:                   | 000062  | Investment Number: | L0062A                                      |
| Member:                       | Turkey  | Region:            | Western asia                                |
| Sector:                       | Energy  | Sub-sector:        | Oil and gas transmission and distribution   |
| AIB Financing Type:           | Loan: 600 USD million   | Co-financier(s):   | WB-led                                      |
| E&S category:                 | A   | Borrower:          | Boru Hattari Ile Petrol Tasima A.S. (BOTAS) |
| Red Flags Assigned:           | 2 (Q2: 2)   | Monitoring Regime: | Enhanced Monitoring – Level I               |
| Implementing Agency:          | Boru Hattari Ile Petrol Tasima (BOTAS)  |                    |   |
| Project Team Leader:          | Hari Bhaskar  |                    |   |
| Project Team Members:         | Somnath Basu, Principal Social Development Specialist<br>Rabindra Shah - Procurement Associate<br>Shonell Robinson, Financial Management Specialist                             |                    |   |
| Completed Site Visits by AIB: | Sep, 2020<br>Missions conducted in Aug 2018, Feb 2019, Sep 2019, Mar 2020, Jun 2020 and Sep 2020. Regular calls being conducted among WB, AIB and the borrower post suspension. |                    |   |
| Planned Site Visits by AIB:   | Feb, 2022<br>Planned virtual mission  |                    |   |

#### 2. Project Summary and Objectives

The project objective is to increase the reliability and security of Turkey's gas supply by expanding underground gas storage capacity. The main components are (i) Gas storage expansion facilities comprising the entire civil, mechanical, electrical and instrumentation works including water and brine pipelines, surface facilities, sub surface facilities, electricity supply and instrumentation control

(ii) Supervision consultancy for supervising the construction and installation of the facilities

(iii) E&S consultancy for monitoring and compliance of ESIA and RAP

The project is co-financed with IBRD. AIB and IBRD financing USD 600 million respectively. IBRD has already financed the original gas storage project in the same location (current project is an expansion project).

Gas storage facility such as this in Turkey benefits the entire population of Turkey as this will help Turkey to import gas in summer (when prices are low) and use the gas in winter season.

#### 3. Key Dates

|                |               |                        |               |
|----------------|---------------|------------------------|---------------|
| Approval:      | Jun. 24, 2018 | Signing:               | Jun. 27, 2018 |
| Effective:     | Jul. 17, 2018 | Restructured (if any): |               |
| Orig. Closing: | Oct. 31, 2024 | Rev. Closing (if any): |               |

#### 4. Disbursement Summary (million)

|                 |        |   |                      |
|-----------------|--------|---|----------------------|
| Currency:       | USD    |   |                      |
| a) Committed:   | 600    | b) Cancellation (if any):                       |                      |
| c) Disbursed:   | 265.97 | d) Most recent disbursement:<br>(amount / date) | 11.95, Mar. 24, 2021 |
| e) Undisbursed: | 334.03 | f) Disbursement Ratio(%) <sup>1</sup> :         | 44.3                 |

<sup>1</sup> Disbursement Ratio is defined as the volume (i.e. the dollar amount) of total disbursed amount as a percentage of the net committed volume, i.e.,  $f = c / (a - b)$

#### 5. Project Implementation Update

The loan has been partially suspended by World Bank and AIB since mid April 2021 due to E&S non-compliance issues, as reported in the earlier PIMRs. The main issues are delayed preparation of vulnerability assessment report and the consequent delayed vulnerability assessment payments, inadequate OHS implementation practices, environmental non-compliance issues, and progress in civil construction works of the transmission lines without updating the resettlement action plan

(and thereby missing potential compensation payments).

Both WB and AIIB have been reviewing the progress of the mitigation actions. Most of the mitigation actions are close to completion except the compensation payments for the people affected by the construction of the electricity transmission lines. BOTAS' senior management has taken the partial suspension seriously and is making positive efforts to implement the mitigation actions. Three out of the four actions are either completed or in an advanced stage of completion. The suspension continues until all the issues are addressed to WB and AIIB's satisfaction. The updates on the mitigation actions are as follows:

i) Vulnerability allowance payments: Vulnerability assessment studies have been prepared by BOTAS, reviewed by the banks and BOTAS is finalising the report (expected completion in end Oct / early Nov 2021). However, BOTAS has completed the vulnerability allowance payments as recommended in this report. Upon finalisation of the report, if any further payments need to be made, BOTAS has assured us that they will quickly complete it. Expected to close this item in end Nov 2021.

ii) Occupational Health and Safety (OHS) conditions: Resolved to the banks' satisfaction.

iii) Environmental non-compliance: Nearly completed, awaiting evidence documents for the completed actions. Expected to be closed by end Oct 2021.

iv) RAP audit reports and compensation payments for affected parties by the construction of electricity transmission lines: RAP audit reports and RAP addendum (to include the RAP for the electricity transmission lines) are nearing completion. After a few iterations, the revised versions are under preparation by BOTAS for the banks' review. Payment of the compensation amounts is expected to take time as the compensation has to be made by the electric utility company (TEIAS) and not BOTAS. TEIAS has committed to complete the payments latest by January 2022. There was a discussion about whether the banks can lift the suspension based on BOTAS' commitment, in writing, that the compensation payments would be completed by Jan 2022. Both WB and AIIB are keen to ensure that the payments are completed to our satisfaction before lifting the suspension. Ministry of Treasury and Finance, BOTAS and TEIAS are exploring options to accelerate the payment process.

While BOTAS is making all efforts to implement the mitigation actions required for lifting of suspension, the project construction and commissioning schedule (subject to lifting of suspension in early 2022) is likely to experience a few months' delay. Action plan to catch up with the original schedule will be discussed among BOTAS, WB and AIIB upon lifting the suspension.

| Components   | Physical Progress  | Environmental & Social Compliance  | Procurement                  |
|--|--|--|------------------------------|
| Component 1:<br>Tuz Golu gas storage expansion facilities (USD590 million) | Top hole drilling, fresh and brine discharge pipelines, and energy transmission works ongoing. Approximately 35-40% of the works are completed. Delays experienced in equipment supply due to Covid 19 impact. | Non-compliance has resulted in partial suspension of the loan by World Bank and AIIB   | Major procurement completed. |
| Component 2:<br>Supervision consultancy (USD8 million)                     | Contract awarded and the consulting firm is on board.  | N/A  | Completed                    |
| Component 3:<br>ESIA and RAP monitoring consultancy (USD2 million)         | Contract awarded and the consulting firm is on board.  | N/A - this consultant is monitoring E&S compliance of works at the project site but has no E&S compliance issues themselves. | Completed                    |

#### Financial Management:

BOTAS' audit report was received in Oct 2020 while the project audit report is pending. We are following up with BOTAS but no concrete timeline has been committed yet by BOTAS which is mainly due to the impacts of the pandemic.

#### 6. Status of the Grievance Redress Mechanism (GRM)

GRM has been established and is functional. Around 15 grievances are open. BOTAS in the process of attending to them. Some of the open grievances relate to additional demands / requests from the landowners on land acquisition and employment opportunities.

#### 7. Results Monitoring

Actual results of end 2020 were originally supposed to be measured in Q1 2021 but is delayed due to restriction of movements induced by the pandemic. Some of the indicators are likely to be achieved later than projected due to the pandemic related delays.

A comprehensive review of the project status including the status of the results indicators will be done during the next mission and once the suspension issue is resolved.

Baseline Year: Jun. 24, 2018 End Target Year: Oct. 31, 2024

## Project Objective Indicators #1

Reduction of gas supply curtailments (billion cubic meter)

| Year          | Target | Actual  | Others, if any   |
|---------------|--------|---------|--|
| Dec. 31, 2020 | 0      | 1.5 bcm | 1.5 bcm is as of Sep 2020. End 2020 actuals are likely to be measured in Q4 2021 - delayed due to Covid 19 impact. |

## Project Objective Indicators #2

Reduction of spot LNG purchases (%)

| Year          | Target | Actual | Others, if any  |
|---------------|--------|--------|---|
| Dec. 31, 2020 | 0      | 0      | Actual reduction is estimated to happen from 2022, as per the original project design |

## Project Objective Indicators #3

Increase in gas storage capacity (billion cubic meter)

| Year          | Target | Actual | Others, if any  |
|---------------|--------|--------|---|
| Dec. 31, 2020 | 0      | 0      | with first reservoir expected to be commissioned in 2022, storage capacity will start coming into play from 2022 and not earlier. |

## Intermediate Result Indicators #1

Turkish consumers benefitting from gas supply (million)

| Year          | Target | Actual | Others, if any       |
|---------------|--------|--------|----------------------|
| Dec. 31, 2020 | 15     | 15.74  | As of September 2020 |

## Intermediate Result Indicators #2

Implementing RAP to compensate project affected persons (%)

| Year          | Target | Actual | Others, if any  |
|---------------|--------|--------|---|
| Dec. 31, 2020 | 100    | n/a    | Measurement delayed. Also, one of the reasons for partial suspension is the failure to update RAP in time and the delays in providing compensation. |

## Intermediate Result Indicators #3

Registered grievances addressed within the stipulated time frame (%)

| Year          | Target | Actual | Others, if any   |
|---------------|--------|--------|--|
| Dec. 31, 2020 | 60     | 60     | Actual number shown is as of September 2020. End 2020 actuals likely to be measured in Q4 2021 - delayed due to Covid 19 impact. |

## Intermediate Result Indicators #4

Indicator #4: Registered grievances submitted by women addressed within the stipulated time frame (%)

| Year          | Target | Actual | Others, if any   |
|---------------|--------|--------|--|
| Dec. 31, 2020 | 60     | 60     | Actual number shown is as of September 2020. End 2020 actuals likely to be measured in Q4 2021 - delayed due to Covid 19 impact. |

## Intermediate Result Indicators #5

Number of community consultations held for women in proportion to the total number of consultations held (Ratio)

| Year          | Target | Actual | Others, if any  |
|---------------|--------|--------|---|
| Dec. 31, 2020 | 25     | n/a    | End 2020 actuals likely to be measured in Q4 2021 - delayed due to Covid 19 impact. |

**Remarks:** There is a probability that achieving some of the intermediate results indicators target numbers could be delayed due to lack of progress attributable to the pandemic.

Our missions are always a good opportunity to verify the progress of results indicators. While BOTAS is working on remedial actions to trigger lifting of suspension, the pandemic has also played a role in delayed measurement of results indicators for 2020. We will be in continuous touch with BOTAS to measure the results for 2020 as soon as the situation allows BOTAS team to measure them.

As explained in the earlier section, a discussion among BOTAS, WB and AIIB to work on the action plan to catch up with the original schedule will be planned once the suspension is lifted. The target results indicators are likely to be achieved at the end of project completion (though the project completion could be delayed).