Building Energy Security Through Sustainable Investments in Georgia

Prior to MCC's compact with Georgia, the nation's north-south natural gas pipeline was poorly maintained and in danger of catastrophic failure. Now, as the five-year compact closes out, MCC's $36 million investment—together with other investments by the Government of Georgia—has secured and diversified Georgia's domestic gas supply for both household and commercial use. As a result, not only is Georgia's energy future brighter, but MCC's investment is expected to generate a $50.9 million increase in incomes for Georgians over the life of the investment.

In the first phase of emergency repairs in 2006, a 3.5 kilometer section of the pipeline near the village of Naniani was completely replaced. A new route for the pipeline was selected in order to avoid landslide areas that had previously caused a rupture in the pipeline and interrupted critical gas supply.

MCC's Commitment to Country Ownership Promotes Sustainability

In addition to the goal of rehabilitating the pipeline, this project was designed with a second goal in mind: to ensure that the Georgian Oil and Gas Corporation (GOGC) emerges from the compact a stronger entity, capable of managing the pipeline to improved standards and sustaining MCC's investment and Georgia's energy network. Instead of bringing in an international project management consultant to manage pipeline repairs, and then transferring the rehabilitated pipeline back to a weak Georgian-based institution, MCC worked to build domestic know-how and management capacity.

At the start of the project, MCC and the Government of Georgia sought technical support and additional funding from the private sector to assist with pipeline works, and partnered with the European Bank of Reconstruction and Development to fund initial survey and design work. MCC and the Georgian government also relied heavily on an international team of experts to fill capacity gaps and help foster Georgia's domestic capacity to manage this type of major project.

Working in close collaboration with the Millennium Challenge Georgia Fund (MCG), the entity implementing the compact, Georgians have designed, managed, and met the engineering oversight; environmental, health and safety; and land acquisition requirements of the project. MCG has conducted public outreach and procurements for each phase of pipeline construction work. Since 2006, international support has been phased out and the last phase of the project was completed under in-house management. Moreover, the new designs and standards introduced through the project will continue to reduce maintenance costs in the future.

The project was GOGC's first experience conducting a resettlement action plan and acquiring access of rights of way from local farmers. The community was concerned about pasture lands, where they grazed cattle, as well as a number of oak trees on the selected route.

The pipeline project also offered new business opportunities for Georgian and regional construction companies. In 2006, few companies expressed interest or capability to work on gas infrastructure in Georgia. Thanks to experience gained through a transparent procurement process and increasingly skilled GOGC supervisors, the final phase of the project in 2009 attracted six qualified bidders, three of which were Georgian companies.

The technical skills and expertise gained from working in accordance with international standards of project management and environmental protection set a higher bar for engineering achievement in Georgia and strengthened local capacity to ensure the pipeline's sustainability over the long term.

Institutional Strengthening for Sustainability

GOGC management designed the pipeline route to minimize loss of trees and committed to improved environmental remediation techniques following the construction.

In addition to executing MCC-funded rehabilitation works, GOGC and the Government of Georgia also achieved a number of important management improvements in the energy sector to accompany MCC investments.

When the compact was proposed by the Georgian government in 2005, technical losses from the gas pipeline system were estimated to be over five percent of total throughput, and GOGC lacked the capacity to collect tariffs from a number of industrial customers and household users.

In response, MCC and the Government of Georgia agreed to a set of institutional strengthening measures designed to increase the impact and sustainability of the pipeline rehabilitation. These measures included a requirement that GOGC reduce technical losses to fewer than two percent and improve its tariff collection rate to over 95 percent annually. By achieving these reforms, GOGC improved its financial sustainability and reduced leakage that produces emissions of methane, a powerful greenhouse gas.

The energy component of the Georgia Compact, in emphasizing the MCC principle of country ownership and increased capacity and sustainability for economic growth, succeeded in achieving its infrastructure goals and improved energy sustainability. This combination of institutional strengthening and infrastructure investments provides a powerful example of effective development assistance.