



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
ELECTRICITY SERVICE ACCESS PROJECT
APPROVED ON JUNE 27, 2017
TO
REPUBLIC OF ZAMBIA

Energy & Extractives

Eastern and Southern Africa

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ABBREVIATIONS AND ACRONYMS

ALCO	Asset and Liability Committee
ARAP	Abbreviated Resettlement Action Plan
C-ESMP	Contractor’s Environmental and Social Management Plan
CPs	Cooperating Partners
DoE	Department of Energy
DBZ	Development Bank of Zambia
E&S	Environmental and social
ESAP	Electricity Service Access Project
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
FA	Financing Agreement
FI	Financial Intermediary
FY	Fiscal Year
GPRBA	The Global Partnership for Results-Based Approaches
GRZ	Government of Republic of Zambia
IFC	International Finance Corporation
IPF	Investment Project Financing
ISR	Implementation Supervision Report
MSEs	Micro and Small Enterprises
MoE	Ministry of Energy
OG-RESS	Off-Grid Rural Electrification Smart Subsidy
PAD	Project Appraisal Document
PDO	Project Development Objective
PMC	Project Management Consultant
REA	Rural Electrification Authority
SMEs	Small and Medium Enterprises
SMPs	Solar Milling Plants
TF	Trust Fund



Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

BASIC DATA

Product Information

Project ID P162760	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 27-Jun-2017	Current Closing Date 31-Aug-2023

Organizations

Borrower Republic of Zambia	Responsible Agency
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Project Development Objective (PDO)

Original PDO

The project development objective is to increase electricity access in Zambia's targeted rural areas.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-61060	27-Jun-2017	20-Mar-2018	15-Jun-2018	31-Aug-2023	26.50	19.73	6.87
TF-A8640	27-Jun-2017	01-May-2019	01-May-2019	31-May-2023	7.00	6.93	.07

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. **The Electricity Service Access Project (ESAP; P162760) is a US\$33.5 million Investment Project Financing (IPF) to support the Government of Republic of Zambia (GRZ) in its renewed efforts to accelerate access to electricity services, particularly in rural areas.** The financing for ESAP was approved by the World Bank on June 27, 2017 and was declared effective on June 15, 2018. The project is co-financed by IDA (US\$26.5 million) and the Global Partnership for Results-Based Approaches (GPRBA) (US\$7 million). At the time of the financing approval, the World Bank planned to help GRZ scale up its rural electrification program in two stages. The first stage was to be achieved through the project, which is to increase access to electricity in rural areas with grid and off-grid technologies. This would be the building block for the second stage, which is to scale up electrification through a larger program that would be launched by the GRZ and potentially supported by the WBG, other Cooperating Partners (CPs), and the private sector. The World Bank committed to support the first stage through ESAP, which was designed to partner with the Rural Electrification Authority (REA) and invest in rural electrification through different modalities and lays the groundwork for the second stage.

2. **The Project Development Objective (PDO) is to increase electricity access in Zambia's targeted rural areas.** The PDO indicator is "People provided with new or improved electricity service (number)". The project components are: (i) on-grid electrification access expansion including a connection fee subsidy program and distribution network extension (Component A); (ii) off-grid electrification expansion including mini-grid smart subsidy program and off-grid Loan Facility (Component B); and (iii) Capacity Building and Project Implementation Support including a National Electrification Strategy (Component C).

3. **The project is about four years into implementation and the progress towards achievement of the PDO is rated Satisfactory.** Notably, through the connection fee subsidy program implemented by the national utility ZESCO under sub-component A1, 55,627 new connections have been made as of January 13, 2023, including 47,137 households (of which 14,374 female-headed households) and 8,490 Micro and Small and Medium Enterprises (MSMEs). The project has therefore already met its PDO level result indicator before the project completion date of August 31, 2023, as the PDO end target of '176,800 people provided with new or improved electricity service' and 245,112 people have been provided with access to date.

4. **Currently, the overall implementation progress is rated Moderately Satisfactory, due to delayed progress on the distribution grid extension (sub-component A2) and off-grid electricity access expansion (Component B).** The implementation progress of sub-component A2 has been slower than expected due to delays in signing the works contracts and preparing the required safeguards instruments, and then compounded by delays in materials shipping caused by the COVID-19 pandemic. By July 2021, all the resettlement compensation was completed, and the contractors' Environment and Social Management Plans (C-ESMPs), Health and Safety Management Plans (HSMPs), COVID-19 plans, and Risk Assessments were cleared by the World Bank. While 8 out of 10 contracts have now been completed subject to final inspections, 2 contracts remained non-performing. These contracts for grid extension works in Central and Muchinga provinces were awarded to the same contractor. Despite prior contract extensions, several written exchanges, and a notice to correct, works were only partially completed by the time the contracts closed on February 4, 2023. Given the non-performance, no further extension has been granted. Together, the project implementation entities REA and ZESCO have proposed an alternative solution for completion of the works, relying on the use of materials received from the



original contractor and procurement of the labor component separately through REA to complete the works. This process has been agreed with the Bank and is expected to take another 10 months with REA committing to absorbing any additional financial requirement expected to be marginal.

5. With regard to sub-component B1, the Off-Grid Smart Subsidy Program (OG-RESS), a funding mechanism has been set-up to expand access to off-grid electricity services in underserved rural areas in Zambia by providing incentives for private sector service providers to deliver these services. The OG-RESS provides direct, results-based financing to private Energy Service Providers (ESPs) to initiate and/or expand their electricity service provision in rural Zambia and to proactively mobilize various types of downstream investment and debt financing. While 5 contracts have now been signed, ESPs have yet to mobilize and – in some cases – obtain licenses from the Energy Regulation Board to begin operations. The contracts are valid for 4 years and REA has committed to supporting ESPs beyond the duration of the project. However, a project extension is proposed to obtain initial verified results of this pilot under the project for purposes of project evaluation and design of future operations. Expected savings of US\$1.5 million have been identified under this component.

6. With regard to sub-component B2, the US\$2.5 million off-grid loan facility is implemented in partnership with Development Bank of Zambia (DBZ) as apex lender and the country's national commercial Bank, Zanaco, as retail lender. Encouraging progress has been made in last 18 months despite initial delays. The World Bank completed an assessment in May 2021, which concluded that DBZ had successfully met the Bank's requirements for Financial Intermediary (FI) Lending (OP10). With all legal agreements associated with the facility signed in 2022, the credit line was launched in January 2023 and the full amount of the credit line is expected to be disbursed to DBZ as FI by April 2023.

7. All legal covenants stipulated in the FA have been complied with. There are no overdue audits or interim financial reports at the time of the restructuring. Safeguards, financial management, and procurement performance rating are rated Satisfactory.

B. Rationale for restructuring

8. In December 2022, the Bank received a request for restructuring of the project with specific referent to: (i) re-allocation of expected project savings from sub-component B1 to the grid connection fee subsidy program under sub-component A1 to enhance the outcomes of the project; and (ii) extension of the project closing date from August 31, 2023, to July 31, 2024 (11 months). An implementation support mission completed in January 2023 highlighted that both objectives of the restructuring were warranted subject to limiting the extension of the project closing date to June 28, 2023 (10 months).

9. With respect to the re-allocation, the Government confirmed expected savings of US\$1.5 million from the OG-RESS program under sub-component B1. These savings arose due to lower-than-expected subsidies requested by ESPs under the program. Whilst additional scope could be added to this pilot program in due course, this will not be done prior to the proposed project closing date. Conversely, the Government requested Bank support to re-launch the grid connection subsidy program under sub-component A1 to meet growing demand from customers newly in proximity to the grid following completion of grid extension works under sub-component A2. Furthermore, ZESCO has requested that any relaunch of the program include an increase in the connection reimbursement rate for new connections in line with recent increases to the connection fees approved by the Energy Regulatory Board. This would bring the connection reimbursement rate from US\$165 to US\$181 per household connection and from US\$110 to US\$152 per MSME connection. The utility estimates that approximately 40,560 additional people (7,800 households) and 500 additional MSMEs could be connected as a result of the activities to be financed by the proposed reallocation of savings.



10. As it concerns the request for the project closing date extension, this is justified on the following grounds:
- (a) A re-allocation of US\$1.5 million to sub-component A1 will require additional time to relaunch the grid connection subsidy program that had been successfully implemented previously and complete, verify, and reimburse additional new connections.
 - (b) Works under the grid extension contracts for two provinces remain only partially complete, despite the contracts having been extended and then closed in February 2023. REA and ZESCO have proposed alternative arrangements for completion of the works, centering in REA procurement of the labor required to complete the work (all materials were supplied by the previous contractor). No additional cost to the project is expected as REA has committed to provide any additional financing required, however, an estimated 10 additional months will be required to complete the grid extensions.
 - (c) While OG-RESS has now resulted in the signature of contracts with private ESPs, additional time beyond the current closing date of the project will allow ESPs to maximize the number of off-grid connections completed and verified under the project, expected to reach 14,000.
11. The requirements of the Bank Directive on Investment Project Financing for a closing date extension are met, namely the Project’s development objective remains achievable, the performance of the Borrower remains satisfactory, and the Bank and Government have agreed on actions that will be undertaken to complete the project prior to the proposed closing date. A revised implementation schedule is presented in Annex 1.
12. This will be second extension of the closing date of IDA Credit IDA-6106. Cumulative extension will be 22 months.

II. DESCRIPTION OF PROPOSED CHANGES

13. The proposed changes include (i) changes to the Project’s component and costs; (ii) funds reallocation; (iii) extension the closing date; (iv) revisions to the results framework and (v) revision to the disbursement estimates. These changes concern only IDA Credit № 6106-ZM and do not affect Grant № TF A8640.
14. **Changes to Components and Cost.** The cost of sub-component B1 for OG-RESS will be reduced by US\$1.5 million (total cost for component B will now be US\$4.40 million). Commensurately, the cost of sub-component A1 will be increased by US\$1.5 million (total cost for component A will now be US\$25.2 million).

Table 1. Changes to the cost of components of the project

Before restructuring		After restructuring	
Name of component	US\$ million	Name of component	US\$ million
Component A - On-grid Electricity Access Expansion	23.70	Component A - On-grid Electricity Access Expansion	25.20
<i>Subcomponent A1 – Grid connection subsidy program</i>	<i>12.40</i>	<i>Subcomponent A1 – Grid connection subsidy program</i>	<i>12.40</i>
<i>Subcomponent A2 – Grid extension works</i>	<i>8.00</i>	<i>Subcomponent A2 – Grid extension works</i>	<i>9.50</i>
Component B - Off-grid Electricity Access Expansion	5.90	Component B - Off-grid Electricity Access Expansion	4.40



<i>Subcomponent B1 – Off-grid rural electrification smart subsidy program</i>	3.40	<i>Subcomponent B1 – Off-grid rural electrification smart subsidy program</i>	1.90
<i>Subcomponent B2 – Off-grid credit facility</i>	2.50	<i>Subcomponent B2 – Off-grid credit facility</i>	2.50
Component C - Capacity Building and Project Implementation Support	7.20	Component C - Capacity Building and Project Implementation Support	7.20

15. **Reallocation between Disbursement Categories.** SDR 1,125,000¹ (about US\$1.5 million equivalent) of the proceeds from the IDA Credit IDA-6106 will be reallocated from Category (3) to Category (2).

16. **Closing Date.** The closing date of IDA Credit № 6106-ZM will be extended by 10 months from August 31, 2023, to June 28, 2024.

17. **Results Framework.** The Results Framework will be updated to reflect an additional 40,560 people provided with electricity (of which an additional 1,560 female headed households) and an additional 500 MSME connections.

18. **Disbursement estimates.** Disbursement estimates will be updated following extension of the closing date.

¹ Per ClientConnection exchange rate tool, 1 USD = 0.75 XDR at time of submission.



III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)



COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Component A - On-grid Electricity Access Expansion	23.70	Revised	Component A - On-grid Electricity Access Expansion	25.20
Component B - Off-grid Electricity Access Expansion	5.90	Revised	Component B - Off-grid Electricity Access Expansion	4.40
Component C - Capacity Building and Project Implementation Support	7.20	No Change	Component C - Capacity Building and Project Implementation Support	7.20
TOTAL	36.80			36.80

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-61060	Effective	31-Aug-2022	31-Aug-2023	28-Jun-2024	28-Oct-2024
TF-A8640	Effective	31-Aug-2022	31-May-2023		

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IDA-61060-001 Currency: XDR				
iLap Category Sequence No: 1	Current Expenditure Category: Gds,Wks,NCS,OC,Trng&CS ex Cat.2-4			
12,735,000.00	9,776,077.42	12,735,000.00	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: On-grid conncections under Pt 1 (a)			
2,600,000.00	2,295,699.82	3,725,000.00	100.00	100.00
iLap Category Sequence No: 3	Current Expenditure Category: Partial Grant Subsidies Pt 2(a)(ii)			



The World Bank

Electricity Service Access Project (P162760)

	2,200,000.00	0.00	1,075,000.00	100.00	100.00
iLap Category Sequence No: 4			Current Expenditure Category: Credit Lines under Pt 2(b)(ii)		
	1,865,000.00	0.00	1,865,000.00	100.00	100.00
Total	19,400,000.00	12,071,777.24	19,400,000.00		



Results framework

COUNTRY: Zambia

Electricity Service Access Project

Project Development Objectives(s)

The project development objective is to increase electricity access in Zambia's targeted rural areas.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	End Target
People provided with new or improved electricity service			
People provided with new or improved electricity service (CRI, Number)		0.00	176,800.00
<i>Action: This indicator has been Revised</i>			

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Component A - On-grid Electricity Access Expansion							
People provided with access to electricity services under the project by household connections (grid or off-grid) (Number)		0.00	0.00	41,600.00	83,200.00	124,800.00	176,800.00



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Action: This indicator has been Revised							
Female-headed households provided with access to electricity services under the project (grid) (Number)		0.00	0.00	1,600.00	3,200.00	4,800.00	6,800.00
Action: This indicator has been Revised							
MSEs provided with access to electricity services under the project (grid) (Number)		0.00	0.00	1,500.00	1,600.00	1,750.00	2,000.00
Action: This indicator has been Revised							
Distribution lines constructed or rehabilitated under the project (Kilometers)		0.00	0.00	150.00	300.00	450.00	550.00
Component B - Off-grid Electricity Access Expansion							
Off-Grid Smart Subsidy Program (OGESSP) piloted (Text)		N/A	N/A	OGSSP designed	OGSSP adopted by REA and established	OGSSP piloted with procurement and award completed	OGSSP piloted with procurement and award completed
Satisfactory Implementation of the Institutional Development Plan (IDP) for DBZ confirmed by independent reviewer (Yes/No)		No	No	No	Yes	Yes	Yes
Loan Facility operationalized (Text)		N/A	N/A	N/A	Loan Facility designed	Loan Facility Operationalized	Loan Facility Operationalized



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Component C - Capacity Building and Project Implementation Support							
Geospatial Master Plan developed and publicly consulted (Yes/No)		No	No	No	Yes	Yes	Yes
National Electrification Strategy developed and publicly consulted (Yes/No)		No	No	No	No	No	Yes
Number of people trained in sector policy and technical aspects (Number)		0.00	5.00	10.00	15.00	20.00	25.00
Percentage of grievances registered related to delivery of Project benefits that are actually addressed (Percentage)		0.00	100.00	100.00	100.00	100.00	100.00

