



REPORT NO.: RES32565

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
ENERGY SECTOR
APPROVED ON JUNE 28, 2011
TO
REPUBLIC OF MALAWI

ENERGY & EXTRACTIVES

AFRICA

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I. BASIC DATA

Product Information

Project ID P099626	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 28-Jun-2011	Current Closing Date 31-Jul-2018

Organizations

Borrower Republic of Malawi	Responsible Agency ESCOM, Ministry of Natural Resources, Energy and Mining
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Project Development Objective (PDO)

Original PDO

To increase the reliability and quality of electricity supply in the major load centers.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-49800	28-Jun-2011	02-Nov-2011	30-Jan-2012	31-Jul-2018	19.30	11.16	6.05
IDA-H7150	28-Jun-2011	02-Nov-2011	30-Jan-2012	31-Jul-2018	65.40	54.31	2.82

Policy Waiver(s)

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

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES



The Energy Sector project was approved by the Board on June 28, 2011 and became effective on January 30, 2012. The project development objective of the US\$ 84.7 million IDA project (IDA-49800, and IDA-H7150) is to increase the quality and reliability of electricity services in major load centers. The project went through a Level II restructuring on April 27, 2016 that extended the project by 21 months from October 31, 2016 to July 31, 2018 to enable project components to be completed. This restructuring is seeking specifically to extend the closing date by another 2.5 months, to October 15, 2018 to provide additional time to complete critical activities that are required for the achievement of the PDO.

As of May 31, 2018, the project has achieved an 86 percent disbursement rate. The project total amount is SDR 52.4 million, which was equivalent to US\$ 84.7 million at approval, and is currently equivalent to US\$74.4 million due to the strengthening of the USD against the SDR. US\$10.82 million has been disbursed by the credit through May 31, 2018 (63 percent of the total amount of the credit), while US\$53.14 million has been disbursed by the grant (93 percent of the total amount of the grant). 97 percent of the funds have been committed as of end May 2018 while the remaining 3 percent may be used by the Government for project related activities consistent with the PDO and to cover potential fluctuations of the USD/SDR exchange rate between now and the closing of the project.

The recent implementation support mission for the project from April 17-28, 2018 reviewed on-going and pending activities under the project, and their implementation schedules and disbursement status. The mission noted that while progress has been made toward completing most activities since the last supervision mission in November 2017, certain activities are unlikely to be completed by the project closing date as follows:

- The draft Mpatamanga feasibility study was presented by the consultant, Fichtner in February 2017. The findings of the feasibility study, and the recommendations of the Panel of Experts engaged by the Government, concluded that due to the exceptional order of magnitude of flows released over the dam spillway, the sizing and proposed layout of the spillway, chute, and energy dissipater will need to be confirmed by means of physical model tests. It was concluded further that significant cost savings can be realized in the project through optimized design of the spillway and the energy dissipater. Fichtner shall supervise the model tests, review the findings and the results prepared by the hydraulic laboratory, report on its findings, and modify the design of the structures modelled by the tests in line with the conclusions. This additional work leading up to the preparation of the feasibility study and tender documents will require an extension of the project beyond the current closing date. It is important to complete the feasibility study and tender documents for Mpatamanga under the ESP as the same are needed for the preparation of Mpatamanga under its revised PPP framework. Over 80 percent of the scope of work is complete, and total disbursement for this activity is at 83.9 percent. The consultants are being requested to accelerate the completion of the final Feasibility Study and Tender Documents for the Mpatamanga hydropower project (308 MW) by the revised closing date of October 15, 2018. In the event the additional work cannot be completed by the revised closing date, the cost of the remaining work shall be borne by the Government.
- Installation of LV Reticulation Equipment is expected to be delayed due to the late approval of the RAP, and the time taken to train technicians and linesmen. According to ESCOM, training of one class of linesmen has now been completed, and internal working groups were dispatched to the field in April 2018 to undertake RAP implementation, that includes compensation for land acquisition. Given the late start of RAP implementation, and related LV reticulation works, it is likely that the LV reticulation component will be delayed beyond the project closing date. Progress through May 21, 2018 was 85 percent and additional time through August 2018 is required to complete the remaining works.
- Construction completion of three new substations, i.e. Katoto, Dwangwa, and Kauma is delayed through August 31, 2018 due to late commencement of works related to additional time required by the contractor to submit its performance guarantee. Progress through May 21, 2018 was 85 percent while total disbursement was 88 percent.



There are no outstanding or qualified audit reports or financial reports, nor are there any problems with the audit or FM reports that have been submitted by the Ministry of Natural Resources, Energy and Mining; and the Utility, ESCOM.

Given the above delays, the Ministry of Finance, Economic Planning and Development submitted a letter to the Bank on May 21, 2018 requesting an extension of the project closing date of July 31, 2018 to December 31, 2018. After careful consideration, and in view of a prior restructuring that already extended the project closing date by twenty one (21) months, the Bank agreed to an extension through October 15, 2018.

III. DETAILED CHANGES

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-49800	Effective	30-Oct-2016	31-Jul-2018	15-Oct-2018	15-Feb-2019
IDA-H7150	Effective	30-Oct-2016	31-Jul-2018	15-Oct-2018	15-Feb-2019