# Document of The World Bank

Report No: RES18919

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF THE

**ENERGY SECTOR SUPPORT PROJECT** 

GRANT H7150-MW AND CREDIT 4980-MW

APPROVED ON JUNE 28, 2011

TO THE

REPUBLIC OF MALAWI

August 4, 2015

## ENERGY AND EXTRACTIVES GLOBAL PRACTICE AFRICA REGION

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#### ABBREVIATIONS AND ACRONYMS

ESCOM Electricity Supply Corporation of Malawi Limited

IDA International Development Association

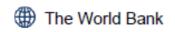
PDO Project Development Objective

Regional Vice President: Makhtar Diop

Country Director: Bella Bird

Senior Global Practice Director: Anita Marangoly George

Practice Manager/Manager: Lucio Monari Task Team Leader: Isabel Neto



P099626 IDA-49800

P099626 IDA-H7150

Effective XDR

Effective XDR

#### **DATA SHEET**

#### Malawi

### Energy Sector (P099626)

#### **AFRICA**

#### Energy & Extractives

Report No: RES18919

				Basi	ic Inf	ormatio	n				
Project ID:		P099	9626			Lending Instrument:		Spec	Specific Investment I		nent Loan
Regional Vice President:		lent: Mak	htar Diop			Original	EA Categor	y: Part	Partial Assessment (B		ent (B)
Country Director:		Bella	a Bird			Current EA Category:		: Part	Partial Assessment (B)		ent (B)
Senior Global Practice Director:		ce Anit	a Marangoly George		Original	Approval Da	ate: 28-J	28-Jun-2011			
Practice Manager	/Manager:	Luci	io Monari		Current Closing Date:		e: 30-C	30-Oct-2016			
Team Le	ader(s):	Mar	Maria Isabel A. S. Neto								
Borrowe	r:	Governme	ent of Mala	wi							
Responsible Agency:		Ministry o	Ministry of Energy and ESCOM								
Restruc	turing Typ	oe -									
Form Ty	pe:	Full Restructuring Paper Decision Authority: Country Director Approval									
• •		Level 2									
Financi	ng (as of	28-Jul-20	015)								
Key Date	es										
Project	Ln/Cr/TF	/Cr/TF Status Approval Date Signing I		ng Date	Effectiveness Originate Closic				vised sing Date		
P099626	IDA-49800	Effective	28-Jun-201	1	02-No	v-2011 30-Jan-2012 30		30-Oct-2	0-Oct-2016		Oct-2016
P099626 IDA-H7150 Effective		28-Jun-201	28-Jun-2011   02-Nov-2011   30-Jan-2012   30-Oct-2016   30-Oct-201					Oct-2016			
Disburse	ments (in M	illions)									
Project Ln/Cr/TF		Status	Currency	Orig	ginal	Revised	Cancelle d	Disburse d	Undis sed	bur	% Disburse d

12.00

40.40

12.00

40.40

0.00

0.00

0.00

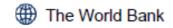
9.07

22

d

12.00

31.33



Policy Waivers		
Does the project depart from the CAS/CPF in content or in other significant respects?	Yes [ ]	No [ X ]
Does the project require any policy waiver(s)?	Yes [ ]	No [ X ]

#### A. Summary of Proposed Changes

This restructuring proposes the following changes: (i) splitting an existing Project component into two subcomponents; (ii) assigning the appropriate implementation agency to one of the newly created subcomponents; (iii) creating a new disbursement category to contain the funds for one of the newly created subcomponents; and (iv) reallocating funds among disbursement categories to take the new category into account. This would be the first Project restructuring.

The Project's Component 2 (or Part B - Generation and Transmission Feasibility Studies) is financing some feasibility studies needed for (a) eventual development of an additional 200-380 MW of new hydropower generation capacity in Malawi; and (b) a transmission backbone feasibility study to further expand Malawi's transmission system. Both the Project Appraisal Document (PAD) and the Disbursement Letter show Component 2 as being implemented only by the Ministry of Energy. However, the Government of Malawi would like for the transmission backbone studies to be implemented by the Electricity Supply Corporation of Malawi (ESCOM), which is also an implementing agency under the Project. In order to enable ESCOM to execute the payments/disburse for the transmission backbone feasibility studies contract, a simple restructuring is required.

This restructuring paper therefore proposes to split Component 2 (Part B) of the Project into two subcomponents: 2.1/B.1 for Generation Feasibility Studies, and 2.2/B.2 for Transmission Feasibility Studies. Implementation of subcomponent 2.2 would be assigned to ESCOM, while the Ministry of Energy would implement subcomponent 2.1. Currently, disbursement Category 2 holds the financing for all Component 2/Part B activities under the Project, but a new disbursement category, Category 9, would be created to include the funds pertaining to implementation of the new subcomponent 2.2. There would be a reallocation of Grant proceeds between Category 2 and Category 9 to allow for disbursement against subcomponent 2.2 activities by ESCOM as Category 9 would be accessible to ESCOM only.

Change in Implementing Agency	Yes [ ] No [ X ]
Change in Project's Development Objectives	Yes [ ] No [ X ]
Change in Results Framework	Yes [ ] No [ X ]
Change in Safeguard Policies Triggered	Yes [ ] No [ X ]
Change of EA category	Yes [ ] No [ X ]
Other Changes to Safeguards	Yes [ ] No [ X ]
Change in Legal Covenants	Yes [ ] No [ X ]
Change in Loan Closing Date(s)	Yes [ ] No [ X ]
Cancellations Proposed	Yes [ ] No [ X ]
Change to Financing Plan	Yes [ ] No [ X ]
Change in Disbursement Arrangements	Yes [ X ] No [ ]
Reallocation between Disbursement Categories	Yes [X] No []
Change in Disbursement Estimates	Yes [ ] No [ X ]

Change to Components and Cost	Yes [ X ] No [ ]
Change in Institutional Arrangements	Yes [ X ] No [ ]
Change in Financial Management	Yes [ ] No [ X ]
Change in Procurement	Yes [ ] No [ X ]
Change in Implementation Schedule	Yes [ ] No [ X ]
Other Change(s)	Yes [ ] No [ X ]
Appraisal Summary Change in Economic and Financial Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Technical Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Social Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Environmental Analysis	Yes [ ] No [ X ]
Appraisal Summary Change in Risk Assessment	Yes [ ] No [X]

#### **B. Project Status**

The Project Development Objective is to increase the reliability and quality of electricity supply in the major load centers. Three and a half years into Project implementation, disbursements remain low at US\$10.7 million, or 14.8 percent of the total Project amount which, as a result of exchange rate fluctuations, is currently equivalent to US\$72 million (US\$16.5 million Credit, US\$55.5 million Grant). Since US\$5.1 million remains in the Designated Accounts, only eight percent of the total Project amount has actually been spent to date. However, despite delays in Project implementation, as of the midterm review conducted in March 2015, the Project had progressed substantially over the previous six months: commitments increased from 13 percent to 28 percent (US\$20.3 million) and procurement for an additional 58 percent (US\$41.5 million) of funds is ongoing. Commitments are expected to increase to 90 percent (US\$64.5 million) by September 2015. While disbursements have been slower to follow, they are expected to increase to 22 percent (US\$16 million) by September 2015. The Project is in compliance with all fiduciary and safeguard covenants.

As of the midterm review, the Project funding, denominated in SDR, had suffered losses in USD of approximately US\$13 million due to exchange rate variations. As such, the Project would not be able to achieve the expected results by the current October 30, 2016 closing date, nor would it be able to finance all the planned activities as described in the PAD. Thus, a broader restructuring is expected to be carried out before the end of 2015, once the Project team confirms the budget estimates for the large contracts currently out for bid to determine whether there are savings before deciding on cancellation of activities. Project performance is rated Moderately Unsatisfactory for implementation progress and progress toward the development objective, and these rating will likely only change once the broader restructuring is undertaken.

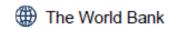
In the meantime, the current restructuring will allow for smooth implementation of the studies related to transmission backbone infrastructure, which are under way.

#### C. Proposed Changes

<b>Development (</b>	Objectives/Result	S
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#### **Project Development Objectives**

Original PDO



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

#### Change in Project's Development Objectives

#### **Financing**

#### **Change in Disbursement Arrangements**

#### **Explanation:**

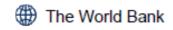
A new disbursement category, Category 9 ("Consultants' services for Part B.2 of the Project"), will be created to hold the funds for implementation of activities under the newly created subcomponent 2.2 (Transmission Feasibility Studies), which will be implemented by ESCOM; Category 9 will be accessible to ESCOM only. No funds have been disbursed to date under Category 2 for activities pertaining to the new subcomponent 2.2.

#### Reallocations

#### Explanation:

There will be a reallocation of Grant proceeds between the current Category 2 ("DISB – CONSULTING for part B.1 of the Project") and the new Category 9 ("Consultants' services for Part B.2 of the Project") under IDA-H7150 (the Grant) as shown in the table below.

Ln/Cr/TF	Currency	Current Category of Expenditure	Allocation		Disbursement % (Type Total)		
			Current	Proposed	Current	Proposed	
IDA-49800	XDR	GDS, WKS, NON- CS, CS, TRG PART A	12,000,000. 00	12,000,000. 00	100.00	100.00	
		Designated Account	0.00	0.00	0.00	0.00	
		Designated Account	0.00	0.00	0.00	0.00	
		Total:	12,000,000. 00	12,000,000. 00			
IDA-H7150	XDR	GDS, WKS, NON- CS, CS, TRG PART A	20,478,000. 00	20,478,000. 00	100.00	100.00	
		DISB - CONSULTING	8,636,000.0 0	6,228,970.0 0	100.00	100.00	
		GDS, WKS, NON-CS, CS PART C	3,810,000.0 0	3,810,000.0 0	100.00	100.00	
		CS, GDS, TRG, OC PARTD.1	360,000.00	360,000.00	100.00	100.00	
		CS, GDS, TRG, OC PART D.2	1,655,000.0 0	1,655,000.0 0	100.00	100.00	
		COMPENSATION PAYMENTS PAYABLE - RAP	309,000.00	309,000.00	100.00	100.00	
		PPF REFINANCING	1,854,000.0 0	1,854,000.0 0	0.00	0.00	
		UNALLOCATED	3,298,000.0	3,298,000.0	0.00	0.00	



		0	0		
	Designated Account	0.00	0.00	0.00	0.00
	Designated Account	0.00	0.00	0.00	0.00
	Designated Account	0.00	0.00	0.00	0.00
	Consultants' Services for Part B.2 of the Project	0.00	2,407,030.0 0	0.00	0.00
	Total:	40,400,000. 00	40,400,000. 00		

#### **Components**

#### **Change to Components and Cost**

#### Explanation:

This restructuring paper proposes to split Component 2 (Part B) of the Project into two subcomponents (2.1/B.1 for Generation Feasibility Studies and 2.2/B.2 for Transmission Feasibility Studies). No further changes are being proposed to the project components. (Note: the current costs in the system do not take into account the exchange rate fluctuations of the USD vs. SDR)

Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action
Component 1: Electricity Network Strengthening & Expansion	Component 1: Electricity Network Strengthening & Expansion	56.20	56.20	
Component 2: Generation & Transmission Feasibility Studies	Component 2: Generation & Transmission Feasibility Studies (Subcomponent 2.1: Generation Feasibility Studies; Subcomponent 2.2: Transmission Feasibility Studies)	15.20	15.20	Revised
Component 3: Demand Side Management and Energy Efficiency Measures	Component 3: Demand Side Management and Energy Efficiency Measures	6.80	6.80	
Component 4: Capacity Building & Technical Assistance	Component 4: Capacity Building & Technical Assistance	3.50	3.50	
	Total:	81.70	81.70	

#### Other Change(s)

#### **Change in Institutional Arrangements**

#### Explanation:

Implementation of the new subcomponent 2.2 (Transmission Feasibility Studies) will be assigned to

### The World Bank

ESCOM, while the Ministry of Energy will implement subcomponent 2.1 (Generation Feasibility Studies).