

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            |

## DATA SHEET

*Malawi*

*Energy Sector (P099626)*

*AFRICA*

*Energy & Extractives*

Report No: RES18919

| Basic Information                |                          |                         |                           |              |                    |                       |                      |             |             |
|----------------------------------|--------------------------|-------------------------|---------------------------|--------------|--------------------|-----------------------|----------------------|-------------|-------------|
| Project ID:                      | P099626                  | Lending Instrument:     | Specific Investment Loan  |              |                    |                       |                      |             |             |
| Regional Vice President:         | Makhtar Diop             | Original EA Category:   | Partial Assessment (B)    |              |                    |                       |                      |             |             |
| Country Director:                | Bella Bird               | Current EA Category:    | Partial Assessment (B)    |              |                    |                       |                      |             |             |
| Senior Global Practice Director: | Anita Marangoly George   | Original Approval Date: | 28-Jun-2011               |              |                    |                       |                      |             |             |
| Practice Manager/Manager:        | Lucio Monari             | Current Closing Date:   | 30-Oct-2016               |              |                    |                       |                      |             |             |
| Team Leader(s):                  | Maria Isabel A. S. Neto  |                         |                           |              |                    |                       |                      |             |             |
| Borrower:                        |                          |                         |                           |              |                    |                       |                      |             |             |
| Government of Malawi             |                          |                         |                           |              |                    |                       |                      |             |             |
| Responsible Agency:              |                          |                         |                           |              |                    |                       |                      |             |             |
| Ministry of Energy and ESCOM     |                          |                         |                           |              |                    |                       |                      |             |             |
| Restructuring Type               |                          |                         |                           |              |                    |                       |                      |             |             |
| Form Type:                       | Full Restructuring Paper | Decision Authority:     | Country Director Approval |              |                    |                       |                      |             |             |
| Restructuring Level:             | Level 2                  |                         |                           |              |                    |                       |                      |             |             |
| Financing ( as of 28-Jul-2015 )  |                          |                         |                           |              |                    |                       |                      |             |             |
| Key Dates                        |                          |                         |                           |              |                    |                       |                      |             |             |
| Project                          | Ln/Cr/TF                 | Status                  | Approval Date             | Signing Date | Effectiveness Date | Original Closing Date | Revised Closing Date |             |             |
| P099626                          | IDA-49800                | Effective               | 28-Jun-2011               | 02-Nov-2011  | 30-Jan-2012        | 30-Oct-2016           | 30-Oct-2016          |             |             |
| P099626                          | IDA-H7150                | Effective               | 28-Jun-2011               | 02-Nov-2011  | 30-Jan-2012        | 30-Oct-2016           | 30-Oct-2016          |             |             |
| Disbursements (in Millions)      |                          |                         |                           |              |                    |                       |                      |             |             |
| Project                          | Ln/Cr/TF                 | Status                  | Currency                  | Original     | Revised            | Cancelled             | Disbursed            | Undisbursed | % Disbursed |
| P099626                          | IDA-49800                | Effective               | XDR                       | 12.00        | 12.00              | 0.00                  | 0.00                 | 12.00       |             |
| P099626                          | IDA-H7150                | Effective               | XDR                       | 40.40        | 40.40              | 0.00                  | 9.07                 | 31.33       | 22          |

| <b>Policy Waivers</b>  |   |  |
|--|---|--|
| Does the project depart from the CAS/CPF in content or in other significant respects?  | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Does the project require any policy waiver(s)?   | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| <b>A. Summary of Proposed Changes</b>  |   |  |
| <p>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.</p> <p>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.</p> <p>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.</p> |   |  |
| Change in Implementing Agency  | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change in Project's Development Objectives   | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change in Results Framework  | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change in Safeguard Policies Triggered   | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change of EA category  | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Other Changes to Safeguards  | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change in Legal Covenants  | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change in Loan Closing Date(s)   | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Cancellations Proposed   | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change to Financing Plan   | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |
| Change in Disbursement Arrangements  | Yes [ <input checked="" type="checkbox"/> ] | No [ <input type="checkbox"/> ]            |
| Reallocation between Disbursement Categories   | Yes [ <input checked="" type="checkbox"/> ] | No [ <input type="checkbox"/> ]            |
| Change in Disbursement Estimates   | Yes [ <input type="checkbox"/> ]            | No [ <input checked="" type="checkbox"/> ] |

|  |   |
|--|---|
| Change to Components and Cost  | Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] |
| Change in Institutional Arrangements   | Yes [ <input checked="" type="checkbox"/> ] No [ <input type="checkbox"/> ] |
| Change in Financial Management   | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Change in Procurement  | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Change in Implementation Schedule  | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Other Change(s)  | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Appraisal Summary Change in Economic and Financial Analysis  | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Appraisal Summary Change in Technical Analysis   | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Appraisal Summary Change in Social Analysis  | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Appraisal Summary Change in Environmental Analysis   | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| Appraisal Summary Change in Risk Assessment  | Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> ] |
| <b>B. Project Status</b>   |   |
| <p>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.</p> <p>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.</p> <p>In the meantime, the current restructuring will allow for smooth implementation of the studies related to transmission backbone infrastructure, which are under way.</p> |   |
| <b>C. Proposed Changes</b>   |   |
| <b>Development Objectives/Results</b>  |   |
| <b>Project Development Objectives</b>  |   |
| 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     |
|           |          | <b>Total:</b>                       | 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                   | 8,636,000.00  | <b>6,228,970.00</b> | 100.00                      | 100.00   |
|           |          | GDS, WKS, NON-CS, CS PART C         | 3,810,000.00  | 3,810,000.00        | 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           | 1,655,000.00  | 1,655,000.00        | 100.00                      | 100.00   |
|           |          | COMPENSATION PAYMENTS PAYABLE - RAP | 309,000.00    | 309,000.00          | 100.00                      | 100.00   |
|           |          | PPF REFINANCING                     | 1,854,000.00  | 1,854,000.00        | 0.00                        | 0.00     |
|           |          | UNALLOCATED                         | 3,298,000.00  | 3,298,000.00        | 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          | <b>2,407,030.00</b> | 0.00 | 0.00 |
|  |  | <b>Total:</b>                                     | 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                  |         |
|  | <b>Total:</b>   | 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

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