RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF
EMERGENCY POWER REHABILITATION PROJECT
(CR 3933 & TF 54718)
(June 22, 2004)

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

June 18, 2010
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1. The proposed project restructuring involves a second extension of the closing date of (a) Cr 3933 from September 30, 2010 to September 30, 2012 and (b) the Afghanistan Reconstruction Trust Fund Grant TF54718 from June 30, 2010 to September 30, 2012, to enable completion of ongoing contracts for project works. The project background, implementation status and the team’s recommendation for the proposed extension are given in the sections below.

2. **Background:** The World Bank approved on June 22, 2004, a credit of SDR 72.4 million (US$105 million) to fund the Afghanistan Emergency Power Rehabilitation Project (EPRP); the credit 3933 became effective on July 27, 2004. The project's development objective is to provide improved and reliable power supply to the people in Kabul. The original project consisted of 6 components:

   - Part A: Rehabilitation and expansion of distribution networks in Kabul.
   - Part B: Rehabilitation of Naghlu hydropower station.
   - Part C: Rehabilitation of the 110 kV transmission line from Naghlu to the Kabul East substation and Kabul North substation.
   - Part D: Technical assistance for project implementation support.
   - Part E: Commercialization of the power utility, DABM.
   - Part F: Technical assistance for Ministry of Energy and Water (MEW) and DABM (the electricity supply department).

3. The project is co-financed by an ARTF grant TF 54718 (US$ 20 million) for Part B of the project.

4. Initially, project implementation had been very slow. In December 2006, the project was restructured to (i) reduce the scope of Part A of the project to rehabilitate and expand the core medium voltage network in Kabul and reallocate credit proceeds to finance critical parts of the northern transmission system to allow the import of lower cost power from neighboring countries to supply Kabul (an added Part G of the project); (ii) outsource project management to a consulting firm to mitigate project implementation delays; (iii) revise the project's outcome indicator to increased grid supplied power consumption by customers in Kabul by 70% at the end of the project; and (iv) extend the credit closing date by 20 months from January 31, 2009 to September 30, 2010. The closing date of TF 54718 was also extended from January 31, 2009 to June 30, 2010.

5. **Project performance:** Following project restructuring and the outsourcing of project management, the project's performance started to turn around. The Project's DO rating is Satisfactory. With the exception of Part B, all project works are substantially completed and project components ratings are Satisfactory or Moderately Satisfactory.
6. From January 21, 2009, 40 MW of imported power began to flow to Kabul from Uzbekistan via the northern transmission system, bringing great relief to the people of Kabul. By early 2010, imports from Uzbekistan increased to about 100 MW, extending hours of power supply to 14-24 hours daily, compared to the situation of 3-4 hours on alternate days before April 2009. On a rolling year basis, grid-supplied power consumption by customers in Kabul for the last complete rolling year ending November 2009 reached 571,800 MWh, which is 100% increase above the baseline level of 284,000 MWh. Corporatization of DABM was approved by the cabinet on March 17, 2008; the Corporate DABS launched its formal operation in September 2009; billing and collections has significantly improved; the first customer services and call center in Kabul was inaugurated on February 22, 2010 and, DABS plans to establish more centers in Kabul and in the regions.

7. Rehabilitation of Naghlu hydropower station: The above project results notwithstanding, rehabilitation of the Naghlu hydropower station is seriously behind schedule. The original four units of 25 MW each at the Naghlu hydropower station were supplied from Russia. A contract for their rehabilitation was finally awarded to Technopromexport of Russia (TPE) on August 30, 2006. Assessment of extent of rehabilitation requirement, manufacture of replacement parts, delays on the part of DABS to shut down and hand over the units to TPE, deteriorating security situation in the surrounding area of the site, the absence of supervisory consultant (Fitchner of Germany terminated their contract with MEW on account of staff safety concerns and demobilized in July 2008), and outstanding claims from the contractor resulting from change orders for works and security related expenses, all contributed to the implementation slippages. To date, TPE has substantially completed the rehabilitation of only one unit.

8. Actions taken by MEW/DABS: In March 2009, MEW contracted SMEC International Ltd (SMEC for management services for the Naghlu hydropower station rehabilitation. MEW and TPE have agreed on the following actions:

(a) MEW/DABS to hand over the second unit to TPE by June 30, 2010, and decommission and hand over the other two units in good time;

(b) TPE to complete the rehabilitation of the three turbine units within 24 months from June 2010;

(c) MEW to consider legitimate claims by TPE associated with (i) additional costs for enhanced measures to address the worsening security situation in the project area, (ii) additional costs necessitated to carry out Change of Orders issued by the Employer, (iii) appropriate amendment to the letter of Credit (LC) of the contract to suitably include the above additional costs including provision for price adjustment.

(d) TPE will: (i) strictly adhere to the revised milestones for the rehabilitation of the units, (ii) review its security arrangements on a continuous basis and take appropriate measures as needed,
(e) MEW/SMEC will closely follow up on contract progress and resolve contractual issues promptly.

9. Recommendation. Considering that (a) some of the factors causing implementation slippage of Part B of the project are outside the control of the MEW/DABS; (b) the rehabilitation of the remaining three units is economically and environmentally justified; (c) MEW has an action plan in place to complete the project by the revised closing date; and (d) the supervisory consultant is now in place and is actively managing the component, we would recommend that you approve the proposed extension of Cr 3933 and TF 54718 to September 30, 2012, to enable completion of the Naghlu hydropower station rehabilitation works, thereby ensuring the project outcomes.