REPORT NO.: RES41012

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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
ENERGY FOR RURAL TRANSFORMATION III
APPROVED ON JUNE 5, 2015
TO
GOVERNMENT OF REPUBLIC OF UGANDA, MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

ENERGY & EXTRACTIVES
AFRICA

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I. BASIC DATA

Product Information

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Organizations

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Project Development Objective (PDO)

Original PDO

The Project Development Objective is to increase access to electricity in rural areas of Uganda.

Summary Status of Financing

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Policy Waiver(s)

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

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
SECTION I - PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Summary

1. The objective of the Energy for Rural Transformation Phase III (ERT-3) project is to increase electricity access in the rural areas of Uganda. The ERT-3 project was approved on June 05, 2015 and achieved effectiveness on March 31, 2016. The project is structured around three components: (a) On-grid energy access – US$115 million IDA; (b) Off-grid energy access – US$14.3 million IDA, US$8.2 million GEF; and (c) Institutional strengthening and impacts monitoring – US$4.5 million IDA. The closing date of the project is December 31, 2020.

a. Component 1: On-grid energy access (US$115 million IDA). This component supports on-grid energy access activities implemented by the Rural Electrification Agency (REA) through construction of (i) medium voltage grid extensions that span approximately 1,900 km and associated consumer connections; (ii) grid intensification through short extensions to the medium voltage (MV) and low voltage (LV) network and connections to potential customers who are relatively close to the existing grid; and (iii) “last-mile” connections.

b. Component 2: Off-grid energy access (US$14.3 million IDA, US$8.2 million GEF). This component supports off-grid energy access through (i) provision of solar PV systems for post-primary schools, health centers and water-pumping stations in rural areas. These activities are implemented by the Ministry of Education and Sports (MOES), Ministry of Health (MOH), and Ministry of Water and Environment (MOWE); (ii) business development support for rural access. These activities are implemented by the Private Sector Foundation of Uganda (PSFU); (iii) line of credit for working capital and guarantee support to solar energy businesses supporting off-grid access. These activities are implemented by the Uganda Energy Credit Capitalization Company (UECCC); and (iv) development of quality assurance frameworks, adoption of standards for plug-and-play and component-based solar PV systems, public awareness to inform consumers of the benefits of solar lighting products and education of consumers on the characteristics of good quality products. These activities are implemented by REA in collaboration with the Uganda National Bureau of Standards (UNBS).

c. Component 3: Institutional strengthening and impacts monitoring (US$4.5 million IDA). This component supports activities related to institutional strengthening, regulatory enhancement, capacity development and impact monitoring. These activities are implemented by MEMD in collaboration with the Electricity Regulatory Authority (ERA), Budget Monitoring and Accountability Unit (BMAU) at the Ministry of Finance, Planning and Economic Development (MoFPED), and Uganda Bureau of Statistics (UBOS).

B. Project Status

2. The Project has made significant progress mainly over the last one and half years toward the achievement of development objectives. While all ERT-3 implementing agencies have recovered from initial delays, the implementation progress of REA-managed activities has been instrumental in advancing overall project implementation with all contracts for distribution grid extension and intensification already awarded, construction underway for several works, and over 145,000 new electricity connections. However, this enhanced implementation performance of implementing agencies, especially REA, has materialized relatively late into the project as the period remaining for project implementation will not be enough to finalize the construction of grid extension and distribution works. Currently, the project has disbursed 46 percent of IDA/GEF funds, comprising US$60 million or 44 percent of IDA credit, and US$6 million or 75 percent of available GEF grant. The project rating towards achieving the Project Development Objective (DO) is Moderately Unsatisfactory (MU) based on the likelihood to achieve the project objectives by the current closing date of December 31, 2020. However, the overall Implementation Progress (IP) rating...
was upgraded recently to Moderately Satisfactory (MS) due to significant implementation progress achieved at the project level, particular related to REA-managed activities.

3. Initial implementation delays were common across all ERT-3 implementing agencies, particularly REA which is responsible for the implementation of about 85 percent of project funds. For REA, the delays were related to inadequate project implementation arrangements and management capacity, insufficient staffing to carry out project activities, protracted procurement processes, and inefficient internal processes, which delayed significantly the preparation of core activities, namely grid extension and intensification works. Additionally, these preparatory activities for these works were delayed due to the non-compliance to World Bank safeguards policies under ERT-2 related to OP 4.12 (Involuntary Resettlement), which triggered the establishment of a new framework under ERT-3 (e.g., align technical designs with the preparation and early implementation of Resettlement Action Plans) to facilitate compliance with safeguards requirements. These challenges have since been adequately addressed through a series of institutional measures that enhanced REA’s implementation performance.

4. COVID19 impact. The implementation momentum of project activities has been temporarily affected by the global outbreak of the COVID19 pandemic. While it is still early to assess the full impact of the pandemic, the measure taken by the Government of Uganda (GoU) to lockdown the country to minimize the effect of the pandemic has slowed down the pace of implementation under the project. For example, the lockdown has affected the commencement and continuation of civil works, importation and transportation of materials and equipment, mobilization of contractors and consultants’ staff to the field, implementation of Resettlement Action Plans (RAPs), etc.

5. The implementation progress of key activities under the different components is summarized below, noting that completion of these activities will be subject to COVID19 and the approval of the proposed closing date.

a. Component 1: On-grid energy access (US$115 million IDA). REA-managed activities include construction of distribution grid extension and intensification works, and new electricity connections.

Sub-component 1.1 (grid extension). The construction works in lines 1-2 (US$8.2 million) is underway, but completion of works will be subject to COVID19. For lines 3-4 and 11-21, the contracts for civil works have been awarded (US$46.5 million), but commencement of works will be subject to COVID19. The GoU has indicated that lines 5-10 (US$11.8 million) will not be financed under ERT-3 and funds be reallocated for other project activities within Component 1.

Sub-component 1.2 (grid intensification). The construction works in Umeme batch 1 (US$3.5 million) is underway, but completion of works will be subject to COVID19. For Umeme batch 2 and Service Providers batch 1 and 2 (US$17.5 million), the contracts for civil works have been awarded, but commencement of works will be subject to COVID19.

Sub-component 1.3 (household connections). The pace of implementation of this activity has accelerated after the approval of the Electricity Connections Policy (ECP) in February 2018. The project target of 150,000 household connections has almost been attained, with the project contributing to 145,123 new connections, of which 65,931 connections were verified/paid by ERT-3 (US$17 million), 70,201 connections verified by ERT-3 and paid by KfW, and 8,991 connections verified by ERT-3 and paid by GoU. There are another 18,521 connections already verified and submitted for Bank’s review.

Sub-component 1.4 (implementation support for on-grid energy access). This sub-component has supported the implementation of on-grid energy access activities including planning, coordination, construction supervision, consumer sensitization and mobilization, independent verification of connections, etc.
b. Component 2: Off-grid energy access (US$14.3 million IDA, US$8.2 million GEF)

Sub-component 2.1 (institutional solar PV systems). Overall implementation progress has recovered from initial delays across the implementing agencies:

- MoWE – energize 27 Water Supply Schemes (WSS). Installations in 12 WSS (US$0.8 million) have been completed and commissioned. Installations in 4 WSS (US$3.2 million) are underway, but completion will be subject to COVID19. For the remaining 11 WSS (US$2 million), the contract has been awarded, but importation of solar equipment and commencement of installation will be subject to COVID19;

- MoH – energize 506 health centers. Installations in 329 health centers (US$1.98 million) is underway, but completion will be subject to COVID19. The tendering process for the remaining 177 health centers (US$2 million) is at bid evaluation stage, with contract award expected by June 2020. Importation of solar equipment and commencement of installations will be subject to COVID19; and

- MoES – energize 89 post-primary schools. The first tendering process was cancelled after the evaluation process became protracted due to complaints from one of the bidders. The first re-tendering process was also cancelled due to irreconcilable inconsistencies in the bidding documents found during the evaluation process. The second re-tendering process is ongoing, with contract award expected by October 2020 (US$1.5 million).

Sub-component 2.2 (business development support for rural access). Some of the key activities implemented under this sub-component include the (a) development and implementation of interventions to increase the number of certified house wiring technicians. The PSFU is working in collaboration with the Electricity Regulatory Authority (ERA), with PSFU focusing on non-formally trained and ERA focusing on formally trained technicians, respectively. About 350 technicians have been certified, and another 450 technicians are expected to be certified by project closing; (b) provision of strategic and operational support to the Uganda Solar Energy Association (USEA).

Sub-component 2.3 (financial intermediation for rural access). The UECCC has engaged on discussions with several solar companies interested in accessing working capital loans under the facility. Despite a few working capital transactions completed thus far (US$0.6 million) with Centenary Bank and Post Bank, which have resulted in about 130 new off-grid electricity connections, the uptake of the facility has been lower than anticipated at this stage of project implementation primarily due to original limitations to Lighting Global certified plug-and-play solar systems only. The initial restriction to Lighting Global-certified systems prevented the participation in the facility from companies offering component-based solar systems which account for a large share of the market. A quality assurance framework has been established to extend eligibility to companies selling component-based systems. The UECCC’s pipeline includes one transaction with Stanbic Bank for US$6 million (US$4 million line of credit, US$2 million guarantee) which is at advanced stages of approval (the Bank task team has already reviewed and cleared the proposal). The funding allocated to this sub-component would be fully utilized subject to the successful closing of this transaction. Besides, the UECCC’s pipeline includes several transactions with Centenary Bank for four solar companies for about US$3 million (US$2 million line of credit, US$1 million guarantee).

Sub-component 2.4 (quality assurance for solar market development). The interim quality-assurance framework for component-based solar systems has been established. Currently, the Uganda National Bureau of Standards (UNBS) is undertaking the process for the adoption of the long-term quality assurance framework for component-based solar systems into a national standard. The project is also supporting the UNBS with the adoption of national standards for plug-and-play solar systems.
c. Component 3: Institutional strengthening and impacts monitoring (US$4.5 million IDA). Some of the key activities supported under this component include (a) procurement and installation of meter testing equipment and domestic house wiring demonstration cubicles; (b) delivery of media campaign to enhance the number of certified wiring technicians in Uganda; (c) training of MEMD, ERA, and UNBS staff in areas of metering, Monitoring and Evaluation (M&E), etc.; (d) preparation of National Electrification Survey Report-2018, which informed the new electricity access rate for Uganda at 41 percent considering at least Tier 1 level of service (22 percent grid, 19 percent off-grid).

C. Rationale for Restructuring

6. An extension of the project’s closing date by one year will enable the completion of outstanding project activities and achievement of the project’s development objectives. By letter dated April 28, 2020, the Ministry of Financing, Planning and Economic Development (MoFPED), Uganda, requested a 12-month extension of the project closing date from the current December 31, 2020 to December 31, 2021. The Task Team, in discussion with the World Bank’s Country Management Unit (CMU), has determined that the proposed 12-month extension will be adequate to complete the outstanding project activities and achieve the project’s development objectives.

7. The proposed time extension will further support the implementation momentum evidenced over the last one and half years, particularly related to REA-managed activities. The adoption of capacity enhancement measures by REA has led to remarkable progress in project implementation, which materialized during the period January-April 2020 with the award of US$64 million worth of contracts for 13 distribution grid extension lines (out of 21 lines) and three intensification projects (out of four projects). The period remaining for project implementation and delays triggered by the outbreak of COVID19 will not allow for the full completion of works under these contracts, despite several supplementary measures adopted to accelerate the completion of construction works, notably the (i) inclusion of bonus clause in all contracts to incentivize the contractors for early completion of works; (ii) completion of detailed engineering designs for all lines to fast-track construction works. The proposed time extension will also enable the installation completion of all institutional solar energy systems in health centers and post-primary schools, where contracts for the equipment are expected to be awarded by June 2020 and October 2020, respectively. The list of activities and status of contract award include:

a. REA
   i. Distribution lines 3-4, contract awarded (US$12.8 million)
   ii. Distribution lines 11-13, contract awarded (US$11.9 million)
   iii. Distribution lines 14-15, contract awarded (US$7.1 million)
   iv. Distribution lines 16-19, contract awarded (US$8.1 million)
   v. Distribution lines 20-21, contract awarded (US$6.6 million)
   vi. Grid intensification w/Umeme batch 2, contract awarded (US$4.9 million)
   vii. Grid intensification w/SPs batch 1, contract awarded (US$2.5 million)
   viii. Grid intensification w/SPs batch 2, contract awarded (US$10.0 million)

b. MoWE
   i. Installation of solar systems in 11 water supply schemes, contract awarded (US$2.0 million)

c. MoH
   i. Installation of solar systems in 180 health centers, contract award expected by June 2020 (approx. US$2.0 million)
d. MoES
   i. Installation of solar systems in 89 post-primary education centers, contract award expected by October 2020 (approx. US$1.4 million)

SECTION II DESCRIPTION OF PROPOSED CHANGES
8. Extension of the project closing date. The proposed 12-month extension will set the new project closing date to December 31, 2021. The new closing date will provide enough time for the completion of key project activities, which are essential for achieving the project’s development objectives.

II. DETAILED CHANGES

LOAN CLOSING DATE(S)

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