



The World Bank

Dasu Hydropower Stage I Project (P121507)

REPORT NO.: RES30392

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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
DASU HYDROPOWER STAGE I PROJECT
APPROVED ON JUNE 10, 2014
TO
ISLAMIC REPUBLIC OF PAKISTAN

ENERGY & EXTRACTIVES

SOUTH ASIA

Regional Vice President:	Annette Dixon
Country Director:	Patchamuthu Illangovan
Senior Global Practice Director:	Riccardo Puliti
Practice Manager/Manager:	Demetrios Papathanasiou
Task Team Leader:	Mats Johan Rikard Liden, Mohammad Saqib

**I. BASIC DATA****Product Information**

Project ID P121507	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 10-Jun-2014	Current Closing Date 30-Jun-2022

Organizations

Borrower Islamic Republic of Pakistan	Responsible Agency Water and Power Development Authority (WAPDA), National Transmission and Despatch Company
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Project Development Objective (PDO)

Original PDO

The overall project development objective is to facilitate the expansion of electricity supply of hydro-power in Pakistan. The Project would also improve access to socio-economic services for local communities in the project area and build WAPDA's capacity to prepare future hydropower projects. This would be achieved by installing a 2,160 MW hydropower plant on the main Indus River, which can be expanded to 4,320 MW in future at very low cost. The Project is a "high-risk-high reward" operation aimed at providing low cost non-carbon renewable energy.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IDA-54970	10-Jun-2014	25-Aug-2014	20-Nov-2014	30-Jun-2022	190.30	0	179.54
IDA-54980	10-Jun-2014	25-Aug-2014	20-Nov-2014	30-Jun-2022	398.10	175.77	184.86



Policy Waiver(s)

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

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

This restructuring paper is to extend the deadline for utilization of funds under Category 2 for land acquisition and resettlement until November 20, 2018 as requested by the Government. This would require an amendment to the Financing Agreement. In the latest ISR dated April 13, 2017 safeguards performance were rated as Satisfactory, while fiduciary and procurement performances were rated Moderately Satisfactory. During recent mission, the safeguards have also been downgraded to Moderately Satisfactory, which will be reflected in next ISR. There are no overdue audit reports related to this project. Brief project status is given below followed by rationale for the proposed amendment to the Financing Agreement.

The Dasu Project has reached considerable milestones in its implementation. Contracts for \$2.12 billion have been secured for preparatory and main civil works, which have commenced. The procurement of the electro-mechanical works contract is undergoing. A total of \$1.79 billion of commercial financing has been secured in addition to the IDA funds. Progress of the contracted works have, however, been slower than expected mainly due to issues related to land acquisition, procurement of key contracts, and financial management. Overall implementation progress was therefore downgraded to Moderately Satisfactory in June 2016 and this rating is maintained after the recent mission in October 2017.

Land acquisition has been slower than expected. Only on December 1, 2016, was an agreement reached on the land compensation rate, and acquisition could start in earnest. Since then 614 acres, of the 2,056 acres required for the construction footprint of the project, have been acquired. The land acquisition pace has been slow due to inadequate coordination between WAPDA, the KP Government, and the Dasu District Administration. Although the pace has improved lately, land acquisition progress is beginning to affect negatively the main work and the project timelines. The safeguards for involuntarily settlement was therefore recently downgraded to Moderately Satisfactory, and WAPDA has been advised to put more focus on this component in the implementation activities.

Procurement of key contracts has been slow mainly due to cancellation of previous awarded contracts, and court cases holding up the rebidding. Procurement performance was therefore downgraded to Moderately Satisfactory in April 2017. Since then procurement performance has improved. Besides finalizing the large contracts for the main civil works, two major preparatory works previously held up in court (KKH-02 and RAR-02) have been awarded. Only two procurement processes are still held up, but is currently being solved through assistance from the Ministry of Water. Once these contracts are awarded it is anticipated that performance will be upgraded to Satisfactory.

Financial management issues have created delays in implementation mainly due to provincial tax not being accepted in invoices from contractors, lack of coordination with Dasu District office for land acquisition, including use of customized software for record keeping, and not using online system for withdrawal applications. Financial management performance was therefore downgraded to Moderately Satisfactory in April 2017. Since then financial management performance has improved. The tax issues have been resolved and coordination with the District Office has improved, although further efficiency is needed.



The proposed change is an extension to utilize IDA credit for land acquisition and resettlement. As stated above, the land acquisition process started late due to delay in reaching agreement on compensation rates, and continued process has been slow due to various administrative hurdles. Consequently, the time allowed under the financing agreement to utilize IDA credit for land acquisition and resettlement, including the one year extension approved in 2016, have been lost. The rationale for including a date by which these funds for land acquisition and resettlement could be used in the original Financing Agreement was to ensure efficiency in the construction timetable. However, for the reasons already set out this process got delayed and must now be expedited to meet the project timelines.

The land acquisition and resettlement process now has the highest priority of WAPDA. As advised by the Bank team, they are now working towards better coordination with the Dasu District Office and the KP Government. The last mission met with the Senior Member of the Revenue Board (SMBR) in KP Government, together with WAPDA staff. The SMBR decided to support the allocation of additional staff for the Dasu District Administration. WAPDA will now ensure to bring these new staff on board, and to reduce the time for revenue surveys, award and payment to land owners. Focus should continue to be on the infrastructure footprint and the area most important for the main works to proceed. Government of Pakistan in its letter dated November 15, 2017 has requested the Bank to extend the deadline for utilization of SDR 71.63 million of IDA credit allocated to Category 2 for land acquisition and resettlement by one year till November 20, 2018.

Based on the above, team recommends to accept the government's request to amend the withdrawal schedule of the Financing Agreement to provide for utilization of funds under Category (2) up to November 20, 2018.

III. DETAILED CHANGES