

Project: **Power Grid Improvement (PGI) Project** Project Stage: **Implementation**
 Team Leader(s): **Rome Chavapricha**
 Country: **Lao PDR**

Project Development Objective

The project development objective is to help improve efficiency and reliability of power distribution in the selected load areas served by EDL.

Key Project Data

Project Number	P149599	Effectiveness Date	31 December 2015	Approval Date	23 June 2015
IDA Credit Amount	US\$ 30 million ¹	IDA Disbursement	\$2.00 m (6.9%)	Closing Date	31 March 2020
PDO Rating	Satisfactory	IP Rating	Moderately Satisfactory		

Introduction

1. A World Bank Mission² visited Lao PDR, from December 12-16, 2016 to carry out an implementation support for the Power Grid Improvement Project (PGI). The mission would like to express its gratitude for the hospitality provided by the Ministry of Energy and Mines and the implementing agency, Electricite du Laos (EDL).
2. As part of the World Bank's Access to Information policy, the team sought guidance from the implementing agencies as to whether the aide-memoire would be publicly disclosed. It was agreed that it would be disclosed.

Key Findings

3. **Project Implementation Progress.** The overall implementation progress is on-track, particularly with the completion of bid evaluation of the largest goods supply and installation package (US\$ 10.46 million G-01 distribution improvement and automation). This package is now pending contract negotiation and expects contract award in January 2017. EDL confirmed to arrange a joint meeting with project stakeholders and the contractor to confirm and stress project environmental and social obligations and Environmental and Social Management Plan (ESMP) (of which included as part of the contract agreement) prior to construction/installation work to begin. This meeting is planned to be held in February 2017. In addition, another major goods package (G-05 estimated cost US\$ 5m: Financial Management Information System) was awarded to FPT Information System on December 23, 2016 to support the supply and installation of an updated corporate financial management system for EDL.
4. As for consultancy, the largest package (C-01 contract value US\$ 1.22m: Consultancy for Advanced Meter Infrastructure System and Power Distribution Improvement) contract was signed on June 16, 2016, the inception report was submitted on August 17, 2016, and the Phase 1 deliverables including reports for Advanced Metering Infrastructure System, Power Grid System Reliability Indicators, and Distribution Equipment Testing Guidance was submitted on December 19, 2016. The other substantial

¹ At approval. The US\$ equivalent value was US\$ 28.88 million as of January 9, 2017.

² Rome Chavapricha (Sr. Energy Specialist and Task Team Leader), Khamphet Chanvongnaraz (Procurement Specialist), Siriphone Vanitsaveth (Financial Management Specialist), Ms. Waraporn Hirunwatsiri (Sr. Environmental Specialist), Vilayvanh Phonepraseuth (Operations Analyst), Thongkham Chanthavong (Program Assistant), Mr. Leopold Sedogo (Sr. Energy Specialist); Mr. Juan Martinez (Sr. Social Scientist); Mr. Reaksmeay Keo Sok (Financial Management Consultant), remotely supported the mission on technical, E&S safeguards and FM aspects of the project.

package (C-05: Consultancy for FMIS Upgrade) is progressing well and supporting EDL with bid evaluation and negotiation with the supplier. EDL has submitted a request to expand the scope of this package to include FMIS implementation support as well as billing system implementation support and now under the Bank review.

5. Procurement.

- i. Overall, procurement performance of the project is considered Moderately Satisfactory (MS). All of the large selection processes planned under the PGIP are now currently underway. In particular, the Bank cleared the bid evaluation report for the largest supply and installation of goods G01 package on January 3, 2017. EDL was advised to pay more attention in evaluation of technical specifications. Information for post qualification shall be related to the requirements only and detailed information about supporting documents shall be stated such as page number of bids submitted by bidders. The Conflict of Interest letter signed by all committee members shall be performed in the bid evaluation report.
- ii. **Contract management:** EDL should closely supervise existing contracts, especially consultancy contracts in accordance with the TOR. For instance, the mission found that the Procurement consultant (C-02) has not yet fulfilled duties as stated in the TOR, including: (i) Prepare a Comprehensive Capacity Building Plan for the Project Procurement team (2 months after contract effectiveness); (ii) Prepare a procurement manual (3 months after contract effectiveness); (iii) Train EDL staff, both in theory as well as hands-on training.
- iii. **Procurement information disclosure:** EDL is advised to use EDL website to disclose the project procurement information. The information to be posted on the website will include:
 - Updated procurement plan
 - Invitation/REOI
 - Bidding/proposal documents, which can be downloaded by interested bidders and they can submit bids/proposals in hardcopy to project implementing agency as specified in the bidding/proposal documents
 - Questions and Answers
 - Bid opening record, and
 - Contract award.

6. Financial Management and Disbursement.

- i. FM rating is Moderately Satisfactory (MS) as key tasks including recruitment of auditors and short term FM consultant have not concluded since the last mission in August 2016. The first Interim unaudited Financial Report (IFR) was submitted with delay and with errors requiring multiple revision before it was accepted. The EDL audited corporate financial statements for 2015 has experienced an excess delay of over six months to date. Please refer to Annex 2 for full FM assessment.
- ii. **Staffing.** It is now confirmed that the following EDL staff are responsible for financial management related matters of PGI projects
 - Accounting and preparation of IFR: Mr. Kanthaneth and Mr. Khamson of accounting division.

- Payments and disbursement: Ms. Lamphone and Mr. Bouasone. Staff in this unit is also responsible for monitoring contract payments, making payments and preparing withdrawal applications.
 - Budgeting: Ms. Netmany of the project team
- iii. **Interim unaudited Financial Report (IFR).** The first IFR was submitted later than the due date and with errors requiring several revisions. The task team refers to detail recommendations for improvement on preparing the next IFR in annex 2 of the Aide Memoire. In terms of submission of the IFR, the mission team also recommends the project to issue a cover signed by at least the project manager. The task team would also like to reiterate that the deadline for submission of IFR is no later than 45 days after each semester ends. The following is the due dates for the project IFRs:

Period	Deadline for submission
Jul-Dec 2016	Feb 15, 2017
Jan-June 2017	Aug 15, 2017
Jul – Dec 2018	Feb 15, 2018
Jan-June 2019	Aug 15, 2019
Jul – Dec 2019	Feb 15, 2020
Jan-Jul 2020 (covering disbursement grace period. Can be earlier if the project closes earlier)	Sept 15, 2020 (can be earlier)

- iv. **Audit.** It is noted that the procurement of auditors is still progressing. The project just received technical proposals from two firms but expect the contract to be signed by January. As the first audit report will be due on June 30, 2017, the mission team urges the project team to commence discussion about the audit fieldwork and deliverables immediately after the contract is signed to enable timely submission of the audit report to the Bank.
- v. **Disbursement** is still low, at approximately 6.9%, a 1% increase from the previous mission. We note that an application for replenishment totaling approximately \$200,000 had been prepared and submitted to the Ministry of Finance (MOF) a few weeks ago but the application is yet to be approved by MOF. The mission team strongly suggests that the project team follow up with MOF immediately. The mission team also requests that the project team prepares a summary of commitment on signed contracts and share with the mission team. As SDR has depreciated against USD since the funding approval, the project team is also strongly recommended to review the undisbursed amount in Client Connection on USD basis regularly to ensure there is sufficient remaining funds to meet commitments.

7. Environmental and Social Safeguards.

- i. The mission met with EDL project director and safeguard team and gone through Schedule to the Financing Agreement-Execution of the Project: Section I. D Environmental and Social Safeguards of the signed Project Agreement. EDL explained the measures being undertaken to implement the project in accordance with the provisions of the Environmental and Social Management Plan. The safeguard requirements of the Environmental and Social Management Plan (ESMP) was included in bidding documents and contracts (G-01 package) under the project. EDL site inspector will closely monitor the contractor (s)' performance of the safeguard

requirements, furnish reports on the results of safeguard monitoring and maintain proper records on the contractor's performance of safeguard requirements. Reports on the status of compliance with the ESMP and any safeguard instruments prepared in accordance with the ESMP will be submitted to the Bank for its review and comment (The report that covers the first year of construction/installation activities is expected in early 2018.). The mission recommended to EDL that monitoring report should include photos describing project activities and mitigation measures that address the environmental and social impact and safety issues that may arise from the project.

- ii. The mission visited storage facility nearby Phontong substation that was planned to keep retired and unused PCB based transformers. The mission found that a concrete pad with curbs or trays that sufficient to contain liquid contents if they be spilled or leaked from unused Polychlorinated Biphenyls (PCB) based transformers, has not been constructed yet. EDL informed the mission that not all 56 units of retired transformers under this project will be PCB based transformers. The mission suggested EDL to conduct inventory of these 56 units to confirm number of unused PCB based transformers that will be retired and disposed at Phontong storage facility for the Bank information by early January, 2017. This will help EDL to clearly inform the contractor of the number of PCB-based transformers that require special attention and handling. In addition, this will assist EDL to design sufficient storage area to dispose the unused PCB based transformers.
 - iii. During the site visit, EDL informed the mission that there will be worker camps during project operation. The mission suggested EDL to request the awarded contractor to draft the operation plan including detailed activities timeframe, location of workers' camp and relevant legal permit, how to handle wastes at worker camps, etc. for the Bank review.
 - iv. As the contractor and its sub-contractor may be new to the good practices as mentioned in ESMP, the mission suggested EDL to conduct a meeting among EDL, contractor and its sub-contractor and the Bank team to discuss about the environmental and social obligations and ESMP prior to the construction/installation work begin. During contract negotiation with the contractor, EDL will set up the meeting time with them and inform the Bank. EDL will also ensure that an environmental safeguard and safety officer will be included as part of the contractor team.
 - v. The mission also discussed with EDL on how to stop encroachment and construction of infrastructure around the electricity poles. The mission suggested that project budget can be used for public awareness raising program on public safety and warning sign attached at the electricity poles. The mission was informed that as per normal practices during implementation stage EDL would closely collaboration with the local authorities to mitigate any significant environmental and social impacts.
8. **Advanced Metering Infrastructure and Distribution performance indicators (SAIFI, SAIDI, etc.).** The AMI System consultancy is on track to assist EDL to develop AMI roll out plan and develop measurement methodology of distribution performance indicators, collect base line information, and start the measurements. In consultation with EDL, the consultant has selected one representative 22 kV power distribution feeder line in Xaythany as a pilot to collect base line information for distribution performance indicators and start the measurements over a one-year period. This pilot will also test new metering and communication options. EDL expects to use the same contractor to implement this pilot as phase 1 of AMI implementation prior to subsequent phases of implementation under PGIP.

EDL and the AMI consultant are assessing the cost-benefit of rolling out AMI to residential customers in the project area. EDL will be deciding how many residential customers will be provided with AMI meters versus lower-cost AMR meters or regular digital/analog meters.

9. **Update on Rural Electrification.** The mission met with officials from the Institute of Renewable Energy Promotion and the Cabinet Office of the Ministry of Energy and Mines to understand the current plan to address the remaining electrification activities in the country. The mission was informed that the current electrification rate is around 90%, and the GOL has set a target to achieve 95% by 2020 and 98% by 2025. For grid and off-grid, the Bank requested for the latest information on the least-cost geospatial mapping for electrification plan. It was discussed that there may be a need to update the least-cost electrification plan to help inform the final phase of electrification for grid and off-grid. The Bank team will be following up with MEM and EDL following the mission.

Next steps and actions

EDL:

- i. Submit revised Bid Evaluation to the Bank for the procurement of supply and installation of Concrete Poles, Cross Arms, MV and LV Conductors, Capacitors Bank, Reclosers, Load Break Switches and Transformers (Package G-01) by December 2016 (*Completed*).
- ii. Provide a revised first annual project progress report to the WB by January 2017.
- iii. Financial Management actions: (a) Submit EDL audited corporate financial statements for 2015 as soon as possible; (b) Complete appointment of project auditors by January 2017; (c) Prepare summary of commitment on signed contracts up to December 31, 2016 and share with the Bank by early January 2017; (d) Inform the mission team of the outcome of discussion with tax authorities on profit taxes paid instead of import taxes by early January 2017; (e) Submit the second IFR covering the period from July to December 2016 by February 15, 2017; (f) Complete revision of FMM by end of March 2017; (g) Submit PGI project audit report and management letter by June 30, 2017; (h) Share or prepare and share asset register with the Bank team as soon as it is available.

WB:

- i. Carry out a final review of the bid evaluation report for G-01 and issue a no objection by January 2017 (*Completed. No objection issued on January 3, 2017.*).
- ii. Review PGI IFR and EDL audited financial statements when available

Annex 1 – List of People Met

Name	Institution	Position
Mr. Bounma Manivong	EdL	Deputy Managing Director
Mr. Komonchanh Phet-Asa	EdL	Deputy Managing Director
Mme. Khamphiou Phounsavat	EdL	Assistant to Managing Director
Mr. Siprasith Boupha	EdL	Project Manager
Mr. Khannousone Phoumkeo	EdL	Deputy Project Manager
Mr. Seune Keosihoun	EdL	Deputy Project Manager
Mr. Latsamee Inthavong	EdL	Deputy Project Manager
Mr. Silikhan Chanthavong	EdL	Manager of Procurement Office
Mr. Kanthaneth Saysompheng	EdL	Manager of Project Loan Accounting Office
Mr. Vongvilay Sisoulath	EdL	Deputy Manager of Environmental Office
Ms. Khamthienphet Inthirath	EdL	Technical Officer, Environmental Office
Mr. Khamphanh Gnabandith	EdL	Technical Officer
Mr. Jitendra Jadon	EdL	Procurement Consultant
Mr. Vongtayfa Sisouvong	EdL	Environmental Consultant
Dr. Daovong Phonekeo	MEM	Director General, Cabinet Office
Mr. Chantho Milattanapheng	MEM	Acting Director General, IREP
Mr. Anousack Phongsavath	MEM	Deputy Director General, IREP
Dr. Seumkham Thoummavongsa	MEM	Deputy Director General, IREP
Mr. Khanthala Sisamout	MEM	IREP

Annex 2: Financial Management Assessment

Key tasks such as recruitment of auditors and short term FM consultant have not concluded since the last mission in August 2016. The first Interim unaudited Financial Report (IFR) was submitted but with delay and with errors requiring multiple revision before it is acceptable. Therefore, FM rating remained Moderately Satisfactory (MS).

Staffing. It is now confirmed that the following EdL staff are responsible for financial management related matters of PGI projects:

- Accounting and preparation of IFR: Mr. Kanthaneth and Mr. Khamson of accounting division.
- Payments and disbursement: Ms. Lamphone and Mr. Bouasone. Staff in this unit is also responsible for monitoring contract payments, making payments and preparing withdrawal applications.
- Budgeting: Ms. Netmany of the project team.

Recruitment of short term FM Consultant. Draft negotiated contract was submitted to the Bank team for review during the mission. Comments have been provided to the project team for incorporation into the contract.

Interim unaudited Financial Report (IFR). The first IFR was submitted later than the due date and with errors requiring several revisions. From discussion we noted that the IFR had to be manually prepared involving manual conversion from LAK to USD and then manual classification of each recorded transaction into component and sub-component. This is because the software used by EdL can only record transactions by type of expenditure. These manual conversion and difficulties in classification of expenditure have, in part, contributed to the delay in the submission. Moreover, classification into project component was also a difficult process and time-consuming as the accounting staff do not have readily available information as to which transaction belongs to which component or sub-components. We note also that the software has the capability of recording transactions in other currencies as well as including exchange rate in the software for automatic translation. Therefore, to minimize human error in the process of translation and to speed up classification of expenditure, the mission team recommend EdL to consider exploring the use of exchange rate function in the software and for project team to provide information about project component and the related procurement package or expenditure to the accounting team.

Budget figures were not included and variance analysis or brief progress report not yet prepared and included in the first IFR. The mission team strongly recommend that budget figures be included and variance analysis carried out for significant variances. Preparation of the IFR including variance analysis is a team's effort not just the accounting unit's task. Hence, it is also recommended that the project team prepare and provide such analysis to the accounting team to incorporate as part of the IFR before submission to the Bank team.

In terms of submission of the IFR, the mission team also recommends the project to issue a cover signed by at least the project manager.

We would also like to reiterate that the deadline for submission of IFR is no later than 45 days after each semester end. The following is the due dates for the project IFRs:

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Audit. It is noted that the procurement of auditors is still progressing. The project just received technical proposals from two firms but expect the contract to be signed at the latest early January. As the first audit report will be due on June 30, 2017, the mission team urges the project team to commence discussion about the audit fieldwork and deliverables immediately after the contract is signed to enable timely submission of the audit report to the Bank. Kindly be reminded of the audit due date below:

To comply with the World Bank’s policy on Access to Information, the PGI project audit report (audited financial statements and audit opinion) will have to be disclosed publicly. The mission team recommends the project team to consider and agree on how best to disclose the report onto the EdL’s website. The mission team will follow up on this issue in the next mission.

Audit period	Due date
Effective to Dec 2016 (first audit)	June 30, 2017
Jan to Dec 2017	June 30, 2018
Jan to Dec 2018	June 30, 2019
Jan to Dec 2019	June 30, 2020
Jan to Mar 2020 (project closing)	Sept 30, 2020

Disbursement. Disbursement is still low, at approximately 7%, a 1% increase from the previous mission. We note that an application for replenishment totaling approximately \$200,000 had been prepared and submit to the Ministry of Finance (MOF) a few weeks ago but the application had not yet been approved by MOF. The mission team strongly suggests the project team to follow up with MOF immediately. The mission team also requests that the project team prepares a summary of commitment on signed contracts and shared with the mission team. As SDR has depreciated against USD, the project team is also strongly recommended to review the undisbursed amount in Client Connection on a regular basis to ensure there is sufficient remaining funds to meet commitments.

Transaction review. A sample of transactions were selected for review during this mission. The mission team did not find any significant exceptions. Controls on approval of expenditure have been complied with and supporting documents were sufficient. However, we noted in one payment where different types of tax were paid other than the taxes noted in the signed contract i.e. profit tax was paid rather than import tax as noted in the contract. The total payments plus taxes was within the contracted amount. It was agreed that the project team will look into this case, discuss with tax authorities and inform the World Bank of the outcome.

Fixed asset register. As many asset items have been purchased and delivered under PGI project and in preparation for the audit, it is highly recommended that the project prepare or update the project asset or inventory register. The register shall contain but not limited to the following information:

- (a) Class of asset
- (b) Asset Code Number (vehicle plate number in case of vehicles and motorcycles)
- (c) Description/Specification (include serial no./model & country of origin)
- (d) User
- (e) Purchase date
- (f) Payment voucher reference
- (g) Purchase cost
- (h) Location
- (i) Condition of assets (e.g. working, damaged, lost etc.)

We request that the project team share a copy of the current register or if not yet prepare, prepare one and share with the bank team when available.

Summary of FM actions:

Action	Responsible party	Target date for completion
Complete procurement of auditors	EdL	Early Jan 2017
Complete revision FMM	EdL	No later than end of March 2017
Submit the second IFR covering the period from July to December 2016	EdL	February 15, 2017
Complete preparation/updating of project asset/inventory register	EdL	Early Jan 2017
Submit withdrawal application (WA) to the World Bank	EdL	Immediately after receiving the signed WA from MOF
Prepare summary of commitment on signed contracts up to December 31, 2016 and share with the Bank	EdL	Early Jan 2017
Inform the mission team of the outcome of discussion with tax authorities on profit taxes paid instead of import taxes	EdL	Early Jan 2017
Submit PGI project audit report and management letter	EdL	June 30, 2017
Inform the mission team on where on EdL website the PGI project audit report will be disclosed	EdL	Next mission
Share or prepare and share asset register with the Bank team	EdL	As soon as it is available

