



The World Bank

GPOBA Improved Electricity Access (P133701)

REPORT NO.: RES33947

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
GPOBA IMPROVED ELECTRICITY ACCESS PROJECT
APPROVED ON MAY 16, 2014
TO
REPUBLIC OF VANUATU
October 2018

ENERGY & EXTRACTIVES
EAST ASIA AND PACIFIC

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ABBREVIATIONS AND ACRONYMS

GPOBA	Global Partnership on Output Based Aid
OBA	Output Based Aid
PDO	Project Development Objective
POM	Project Operations Manual
SIA	Subsidy Implementation Agreement
UNELCO	Union Electrique Du Vanuatu Limited
VUI	Vanuatu Utilities & Infrastructure Limited
VUV	Vatu



BASIC DATA

Product Information

Project ID P133701	Financing Instrument Investment Project Financing
Original EA Category	Current EA Category
Approval Date 16-May-2014	Current Closing Date 31-Dec-2018

Organizations

Borrower Ministry of Finance and Economic Management	Responsible Agency Department of Energy
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Financing (in USD Million)

SUMMARY

Total Project Cost	4.00
Total Financing	0.00
Financing Gap	0.00

DETAILS

Project Development Objective (PDO)

Original PDO

The Project Development Objective for this operation is to increase sustainable access to formal grid-based electricity services within Vanuatu's electricity concession service areas for low income consumers through targeted subsidies.



Summary Status of Financing

TF	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-16279	02-Jun-2014	02-Jun-2014	23-Sep-2014	31-Dec-2018	4.85	1.30	3.55

Policy Waiver(s)

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

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

Project Status

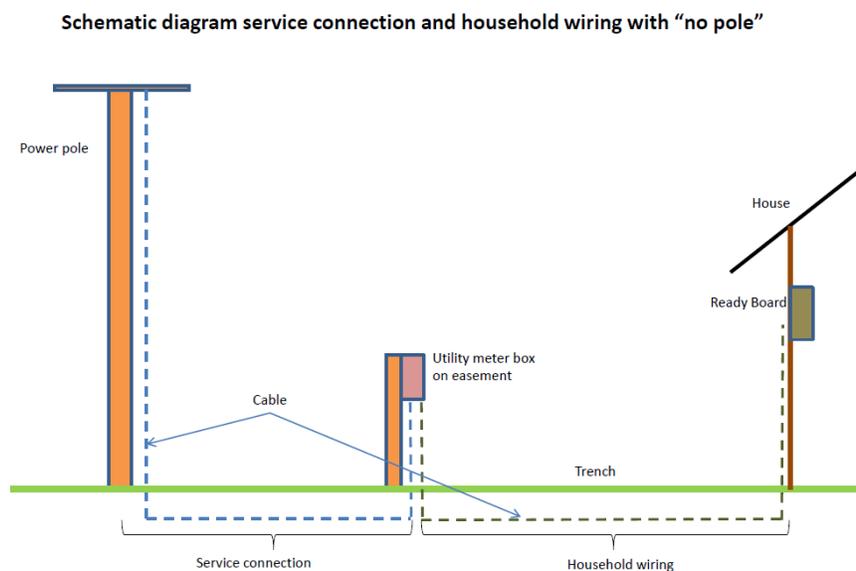
1. The progress towards the achievement of the PDO is rated Moderately Unsatisfactory. A total of 2,009 service connections (46 percent of target) and 1,288 household wiring (29 percent of target) have been achieved as of June 30, 2018. Vanuatu Utilities Infrastructure (VUI) has performed to expectations in its concession area and is likely to meet its target by the closing date of the project of December 31, 2018. Union Electrique Du Vanuatu Limited (UNELCO) is well behind schedule (38 percent for service connections and 17 percent for household wiring of its targets as of June 2018) and will not be able to achieve its target of 3,570 service connections by the closing date of the project.
2. A total of 27 percent of the allocated funds were disbursed by August 30, 2018 (US\$1.30 million). It is estimated that US\$3.0 million of project funds will remain undisbursed at project closing date (December 31, 2018). The project has complied with the requirements for financial management reporting, with the legal covenants and the safeguards rating is moderately satisfactory.
3. The reason for the unsatisfactory performance is that UNELCO is not on track to achieve the expected result on service connection and household wiring because it has been engaged in operating a similar subsidy program of its own outside the project scope since the start of the project. Around 50% of the project targeted households opted for service connections under UNELCO’s own program, and this was identified during the Mid Term Review finalized in December 2017. In addition, the numbers of households who took up the offer of household wiring under the program in UNELCO’s concession areas has been lower than those who obtained the service connections which caused safety concerns¹.
4. During project preparation, the World Bank identified the cost of the service connection and household wiring as a key barrier to electricity access in Vanuatu. The Global Partnership on Output Based Aid (GPOBA) project was designed to

¹ Some households opted not to receive household wiring under the project but to go for a cheaper, alternative solution. This was partially due to the timing issues (as preparation of cable trench by households for household wiring was not ready when the service connection was conducted by UNELCO), and partially due to the high cost and limited subsidy of household wiring if the stringent standards under the project are followed.



address this barrier. There are four components: 1) Output Based Aid (OBA) subsidies for new electricity service connections for eligible households; 2) OBA subsidies for household wiring for eligible households accessing a service connection under the project; 3) implementation support to the DoE for project management, communications and outreach, and training; and 4) Independent verification of outputs by an Independent Verification Agent. Component 1 provides a one-off subsidy to cover up to 80 percent of the cost of connecting eligible households to grid-based electricity services. Component 2 provides a one-off subsidy to cover the cost of household wiring, on average, up to 40,000 vatu for eligible households accessing a service connection under the project, where wiring is not to standards or not in place. Under the approved project design, if a household received a service connection under the project the household could opt to also receive household wiring, however a household could not receive only household wiring under the project. The project (including safeguards) documents set out this arrangement. The Project Operations manual (POM) further describes the details and arrangements on the eligibility of households to receive a subsidy for household wiring and the coverage of the subsidy. The figure below illustrates the service connection with a household wiring component where no additional pole is required.

Figure 1: Service Connection and Household Wiring where no additional pole is required



5. In February 2018, during the Mid-Term Review mission concerns were raised that the households that opted not to receive household wiring in under the project in UNELCO’s concession areas may not be safe after cases of household wiring not meeting standards were identified². Although, during preparation, UNELCO and VUI’s processes for safety

² Historically in Vanuatu, households requiring electricity supply would request a service connection from the private sector electricity suppliers, who would then provide a service connection (from the distribution network to a meter adjacent to the street), provided the householder paid for the connection. The householder would then arrange their own household wiring. There are no household wiring standards in Vanuatu. The services providers’ General Conditions of Public Electricity Supply in Vanuatu, requires that household wiring meet standards and provides the right to the service provider to disconnect any household whose wiring does not meet standard. Under this project, the adoption of household wiring standards was included as a key performance indicator. The World Bank provided technical assistance to the Government of Vanuatu on the Government’s drafting of regulations and enabling legislation to facilitate its adoption, but the adoption of the household wiring standards has been delayed



had been identified as very strong, the World Bank undertook further investigations through the Independent Verification Agent to assess safety of household wiring based on whether households meet minimum international standards³. It was established that around one third of the sample did not meet the minimum standards (approximately 716 households). The DoE and UNELCO agreed that they would assess household wiring for every household who had not taken up the household wiring offer under the project for compliance with the minimum requirements. If the household wiring did not meet the standards, the household would be issued with a defect notice together with information on electrical safety and be offered subsidized household wiring. In addition, it was agreed that the subsidy limit would be revised to an average instead of an upper limit (established at VUV 55,000).

6. In May 2018, the project closing date was extended by six months, from June 30, 2018 to December 31, 2018 to facilitate actions on household wiring to address safety concerns and support the adoption of household wiring standards in Vanuatu. At present, UNELCO has started the rectification works. It has visited 554 households on Efate and Tanna to assess household wiring and identified approximately 359 households warranted rectification works. Additional households, up to a total of 450, may need rectification including households in Malekula⁴. To date, UNELCO's contractor has completed rectification works for 137 households. However, the need for households to pay the difference between the cost and subsidy is delaying the rectification of household wiring and where the customer is unable or unwilling to prepare the necessary trench.

Rationale for Restructuring

7. Considering the ongoing safety risks, the delays mentioned above, and the time left until the project closing date (31 December, 2018), it is recommended that the World Bank removes existing limits on subsidy to allow for financing of all costs associated with household wiring, including the preparation of trenches for the cables for those households requiring rectification works. With additional funding made available, UNELCO considers that it could complete the remaining rectification works by project closing.
8. This restructuring seeks to amend Component 2 to (i) vary the subsidy arrangement to remove the limit on the amount of subsidy for household wiring as set out in the POM, and (ii) amend the scope of works for household wiring to include the costs for preparation of cable trenches, to facilitate completion of household wiring to address safety concerns⁵. The POM is being revised concurrently to include the prescribed list of households that require the completion of household wiring to address safety concerns. This proposal was discussed during the implementation support mission on August 20 – 24, 2018 and was agreed by the Recipient, and reflected in the Aide Memoire for the mission dated August 2018. There are no changes to the Project Development Objective (PDO), safeguards, or procurement arrangements.

³ UNELCO at the time advised and subsequently reaffirmed that it would not energize households deemed to have unsafe wiring and would disconnect any household where unsafe wiring was present. This informed the design of the project at the time which established household wiring as an option. This practice by UNELCO was confirmed by the independent consultant as part of the Mid Term Review of the project. The Bank has been advised that the Government of Vanuatu and UNELCO are not aware of any incidents that have resulted in property damage or injury.

⁴ Up to 450 households includes, 165 households in Efate, 57 households in Tanna and up to 162 households in Malekula.

⁵ As per existing arrangements, household wiring will include cabling and backfilling (in a trench prepared by the consumer) from the utility meter box to a Ready Board in the consumer's premises.



9. While carrying out ongoing rectification works, it has been identified that part of the households that have received a service connection under the project and have not received household wiring (thereby being potential households for rectification), are still under construction (approximately 100)⁶. The project will not be able to fund any household wiring for homes that are completed after the project completion date. As a result, in these cases, as per usual practice in Vanuatu, the house-holder will obtain and pay for household wiring using its own funds, and once the wiring is in place, UNELCO would energize the meter connection after confirming that the household wiring is to the standards required in the General Conditions of Public Electricity Supply in Vanuatu.

II. DESCRIPTION OF PROPOSED CHANGES

10. **Change of Component 2:** The component will be amended to (i) vary the subsidy arrangement to remove the limit on the amount of subsidy for household wiring as set out in the POM, and (ii) amend the scope of works for household wiring eligible for subsidy to include the preparation of cable trenches, to facilitate completion of household wiring rectification work to address safety concerns. The POM is being revised concurrently to prescribe the list of households that require rectification of household wiring to address safety concerns. For these households the project will provide a one-off subsidy to cover the total cost of household wiring⁷.
11. There are sufficient funds under Component 2 to finance these expenses as there is an undisbursed balance of approximately US\$3.0 million and it is estimated that expenses to complete household wiring to address safety concerns will be in the order of US\$909,000. Based on an average subsidy amount of US\$700 per household for household wiring, it is estimated that the household wiring costs (excluding trenching) for up to 450 households will be approximately US\$315,000. The costs to prepare the cable trench is highly variable as it depends on the length of the trench and the type of the soil and material encountered during preparation of the trench. The costs to prepare the cable trench has also been estimated at US\$1,320 per household (total US\$594,000). There will be approximately US\$3.0 million in funding remaining after rectification works to household wiring to address safety concerns for the remaining households (of up to 450).
12. As the implementation arrangements remain unchanged from a safeguard perspective, there will be no update to the safeguard documents. Tailored project communication will mitigate possible concerns from customers stemming from this change, explaining that various options are being made available specifically to address safety concerns. Any grievances will be addressed through the channels already established under the project.
13. **Change in Disbursement Estimates:** Disbursement estimates are adjusted to reflect the proposed inclusion of the total cost of revised scope of household wiring eligible for the one-off subsidy, including the preparation of cable

⁶ The meter connection is often established at the boundary of the property and not connected to the home. A meter connection can be installed before construction of a house is completed.

⁷ As per existing arrangements, household wiring will include cabling and backfilling from the utility meter box to a Ready Board in the consumer's premises. The Ready Board will include necessary protection, and up to two light sockets with switches, two power outlets and two energy saving light bulbs. For safety reasons, the wiring will be carried out and/or certified by qualified (Grade A, Australian Electrical/Mechanical Fitters License or equivalent) electrical contractors contracted or electrical contractors authorized by UNELCO to carry out the works. UNELCO will supervise the electrical contractors and on completion, provide verification that the wiring has been completed to standard.



trenches for the households identified in the POM. (NB: Totals from the table below may differ due to exchange rate fluctuation/rounding.)

- 14. **Other Changes:** Revisions to the POM and Subsidy Implementation Agreement (SIA) with UNELCO are required to implement the proposed revisions to Component 2.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Components and Cost	✓	
Disbursement Estimates	✓	
Other Change(s)	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Results Framework		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Additional Financing Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Change in Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓

IV. DETAILED CHANGE(S)



COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
OBA Subsidies for new electricity connections for low income households	2.20	No Change	OBA Subsidies for new electricity connections for low income households	2.20
OBA Subsidies for household wiring for low income household accessing electricity services under this project	2.10	Revised	OBA Subsidies for household wiring for low income households accessing electricity services under this project	2.10
Implementation support for project management, communications and outreach, and training	0.35	No Change	Implementation support for project management, communications and outreach, and training	0.35
Independent Verification	0.20	No Change	Independent Verification	0.20
TOTAL	4.85			4.85

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates
Yes

Year	Current	Proposed
2014	0.00	0.00
2015	700,000.00	160,779.00
2016	900,000.00	275,659.00
2017	1,200,000.00	322,221.00
2018	1,700,000.00	380,001.00
2019	350,000.00	850,000.00

Note to Task Teams: End of system generated content, document is editable from here.