REPORT NO.: RES29829

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

ENERGY SECTOR DEVELOPMENT PROJECT

APPROVED ON JANUARY 26, 2015

TO

GOVERNMENT OF TUVALU

ENERGY & EXTRACTIVES

EAST ASIA AND PACIFIC

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Country Director: Michel Kerf
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Practice Manager/Manager: Jie Tang
Task Team Leader: Leopold Sedogo
I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>P144573</td>
<td>Investment Project Financing</td>
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</table>

<table>
<thead>
<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
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<tr>
<td>Partial Assessment (B)</td>
<td>Partial Assessment (B)</td>
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<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<td>26-Jan-2015</td>
<td>31-Mar-2019</td>
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Organizations

<table>
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<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
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<tbody>
<tr>
<td>Government of Tuvalu</td>
<td>Tuvalu Electricity Corporation</td>
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</table>

Project Development Objective (PDO)

Original PDO

The project development objective (PDO) is to enhance Tuvalu’s energy security by reducing its dependence on imported fuel for power generation and by improving the efficiency and sustainability of its electricity system.

Summary Status of Financing

<table>
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<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Net Commitment</th>
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Policy Waiver(s)

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

No
II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

A. Project Status

1. Project performance and overall status: Project performance is rated as moderately satisfactory for Progress towards achievement of the PDO and Moderately Satisfactory for Overall Implementation Progress in the most recent Implementation Status and Results Report. The project was approved on 15 January 2015 with two sources of funding: an International Development Association (IDA) grant equivalent to US$7 million and a Small Island Development States Initiative (SIDS DOCK) grant in the amount of US$2.1 million (TF018949). The project became effective on 6 May 2015. Implementation has experienced delays due to difficulties in the hiring of key team members, which resulted in slowness in procurement. The timely recruitment of team members was largely impeded by Tuvalu’s limited project implementation capacity, particularly the lack of educated workforce. These issues have now been resolved and the Project Manager, Project Implementation Officer, Energy Adviser, Procurement Adviser, and Financial Management Specialist have been recruited, mostly internationally, and onboarded. An agreement between Tuvalu Electricity Corporation (TEC) and Tuvalu Aviation Investment Project (TvAIP-PST) in respect to cooperation and the support for financial management from the TvAIP-PST has been signed and is in force since May 2017. The Bank will continue to work with the team to continue to build capacity in this area. Thus, the procurement of major contracts over fiscal year 2018 is expected to improve significantly. This is expected to have a positive impact on the disbursement of funds as well as implementation progress.

2. Progress by component. The status of the three project components is outlined below:

a) Component 1: Renewable Energy (RE) Investments
   • RE Generation. Based on current estimates, planned investments supported by the project would include about 1,150 kW of RE generation (solar PV and wind), 934 kWh of storage batteries, 900 kW of inverter/rectifier capacity, and the control system. TEC staff and the World Bank team have identified potential sites for the installation of the RE equipment. Currently, TEC is working on obtaining the land rights for the potential sites. The technical specifications for the combined wind, solar PV, battery storage, and the control systems are available and bidding documents are expected to be ready in December 2017.
   • Monitoring and communication equipment. The Tuvalu Telecommunications Corporation (TTC) will provide the connectivity required by TEC to monitor and control RE generation and prepaid smart meters to be procured under the project. There are now radio communications with all outer islands and three internet connections. TEC will deploy high frequency radios in the outer islands for emergencies.
   • Fibre optic cable installation in Fongafale. TEC is connected to TTC through standard copper cables that are deteriorated by corrosion and the data transfer speed is slow. The project will support the replacement of this link with a fibre optic network, including the extension required to connect the PV systems in place and those planned for the near future. Draft design and specifications are available.

b) Component 2: Energy Efficiency (EE) Investments
   • Supply and installation of prepayment and smart meters. The final procurement bidding package has been cleared by the Bank and tendered on October 17, 2017.
   • Supply and installation of selected EE investments. The preferred option for the owners of the grocery stores where EE investments are to be deployed is to replace inefficient reefers with decentralized cool rooms. TEC is in discussion with the Tuvalu Development Bank (TDB) to expand the already existing scheme subsidizing the purchase of
EE appliances to cool rooms for supermarket owners. With regard to EE upgrades of buildings, the technical specifications for window tinting and shading of government buildings are available. TEC is furthermore in discussion with the TDB to launch a subsidy scheme for appliances such as air conditioning and/or lighting.

- Developing EE policy, standards and labelling, and raising consumer awareness. The 'Tuvalu Energy Efficiency Act’ and Energy Efficiency Regulations 2015 were adopted, restricting appliance imports and enforcing appliance labelling and minimum energy performance standards.

c) Component 3: Technical Assistance and Project Management Support. The key project team members have been hired and most recently an Energy Adviser has been engaged to review and update technical specifications and revise terms of reference (TOR) as needed.

4. Safeguards. The project was approved as a category B project for environmental and social safeguard purposes. Project activities carried out so far have complied with the Environmental and Social Management Framework (dated November 25, 2014 following consultations with TEC) and no issues have been reported about resettlement. Safeguards aspects have been included in the TOR for recruiting consultants for the project as appropriate. There are no outstanding safeguard issues.

5. Fiduciary capacity and support. The project financial management and procurement ratings are Moderately Satisfactory. Interim Financial Reports for the first two quarters of 2017 were submitted on September 6, 2017, with a delay caused by the lack of a finance role being in place on time. It is expected that with the assistance of TvAIP-PST and the Procurement Adviser there should be improvements in financial management and procurement performance under the project.

B. Rationale for restructuring

6. This is the first restructuring of the project. The restructuring is needed to extend the closing date of the SIDS DOCK trust fund (TF018949) grant, which has a current closing date of December 31, 2017. It is proposed to extent the SIDS DOCK grant in line with the current closing date of the IDA grant (P144573), which is March 31, 2019. SIDS DOCK funds represent 23 percent of total project funding (US$2.1 million) while the IDA grant represents the remaining 77 percent (US$7 million).

7. In 2015 when the project became was approved, the wider SIDS DOCK multi-donor trust fund (MDTF), administered by the World Bank was slated to close on December 31, 2017. The MDTF has closing date has recently been extended to June 30, 2020 and it was anticipated that the SIDS DOCK grant closing date under this project would be extended once the wider MDTF was extended.

8. The objectives of the project continue to be relevant and achievable. Although only 5.71 percent of the SIDS DOCK funds under the project have been disbursed to date, this closing date extension would allow key project activities to be completed and for the PDO to be achieved. Major procurements are expected to be finalized soon: the contract for prepayment meter system will be awarded in December 2017 and the work will be completed by June 2018; contract award and installation for completion of wind turbines, PV systems, storage and grid-control equipment is anticipated in April 2018 and January 2019, respectively.

C. Summary of proposed changes
9. The proposed change that is part of this level 2 restructuring is an extension of the closing date for the SIDS DOCK grant (TF018949) from December 31, 2017 to March 31, 2019.

D. Detailed description of the proposed changes

10. The SIDS DOCK funds under this project (TF018949) are linked to the SIDS DOCK MDTF (TF071728). The closing date for the MDTF was December 31, 2017 and it was anticipated that the MDTF would be extended as the initial closing date would not have allowed for the completion of the work. As expected, the closing date of the MDTF has now been extended to June 30, 2020. While the SIDS DOCK funds under this project are expected to be disbursed by June 2018, it is proposed to extend the project level SIDS DOCK grant closing date (TF018949) from December 31, 2017 to March 31, 2019 to align with the closing date of the IDA funds under the project and to permit time for achievements to be realized and measured. The change in closing date captured in this restructuring will require an amendment to Section II, B of the SIDS DOCK Grant Agreement.

III. DETAILED CHANGES

LOAN CLOSING DATE(S)

<table>
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<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
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