Report Number : ICRR0021188

1. Project Data

Project ID	Project Name
P131027	ZR-Inga 3 and Mid-Size Hydro Dev. TA
Country	**Practice Area(Lead)**
Congo, Democratic Republic of	Energy & Extractives

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-H9090	30-Jun-2019	106,500,000.00
Bank Approval Date	**Closing Date (Actual)**	
20-Mar-2014	12-Sep-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	73,100,000.00	0.00
Revised Commitment	0.00	0.00
Actual	3,111,666.17	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The Project Development Objective as stated in the Financing Agreement (Schedule 1, page 6) and the Project Appraisal Document (PAD, page 7) was:
"To contribute to the sustainable development of Inga 3 Basse Chute (BC) and selected mid-size hydropower projects."
Note: Inga BC development referred to diversion of part of the water of the Congo into the Bundi territory and a dam across the Bundi valley.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

There were two components (PAD, pages 12-15).

One. Inga 3 Development support. Appraisal estimate US$80.90 million. Actual cost 0.00 million. This component aimed at building on the feasibility study for developing the Inga site. There were three sub-components.

(a) Inga 3 BC development support. Activities included preparing complementary studies identified in the feasibility study. Activities included: (i) financing studies on geological and geotechnical investigations on site, sedimentation in the canal, Congo River water intake, impact of Inga 3 BC development during low river flows, social and environmental studies for updating the Environmental and Social Impact Assessment Study (ESIA) and financing studies for studying the developmental impact of Inga 3 BC development.

(b) Transaction advice and procurement support. Activities included providing technical, legal and financial assistance for the structuring of the Inga 3 development. Activities included: (ii) supporting the government in preparing the legal framework for the development of Inga 3 and subsequent phases. (ii) support the financial and institutional structuring of the Inga 3 BC development: (iii) support for finalizing the selection and contract award of the concessionaire for the power house and transmission lines and, (iv) analytical work for finalizing the agreements associated with the Inga treaty signed between DRC and the Republic of South Africa (RSA) on aspects such as tariff setting, interconnection arrangements and interface with Southern Africa Power Pool (SAPP).

(c) Institutional support and sector strengthening. Activities included supporting the establishment of the Inga Development Authority (ADEPI) Activities included: (I) financing in-house consultants and individual advisors: and, (ii) financing the establishment of the public management structure to supervise the construction of the common infrastructure.

Two. Mid-size Hydropower Development Support. Appraisal estimate US$25.60 million. Actual cost US$0.00 million. This component provided support for developing midsize hydropower projects. This component had three sub-components.

(a) Mid-size hydro development. Activities aimed at providing support for developing the institutional, regulatory and legal framework for developing mid-size hydro projects. Activities included: (i) support for preparing the legal framework, additional legal texts and regulations to accompany the electricity law for regulating private sector participation in developing mid-size hydropower projects: and, (ii) support for providing technical and economic information on mid-sized hydropower projects to the government for mobilizing public and private financing for developing these sites.

(b) Carbon finance market development. Activities provided support for assessing the eligibility for carbon finance for Inga 3 development and mid-size hydropower projects and developing Climate Development Mechanism (CDM) of activities.

(c) Institutional strengthening to CG13. This component provided support to the operation of Inga 3 Technical Cell (CG13) within the Ministry of Hydraulic Resources and Electricity (MRHE).
Activities included financing for the consultants' costs, office equipment, operational fee, counselors, organization of workshops and communication.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. Appraisal estimate US$106.50 million. The project was cancelled two years after effectiveness with US$3.11 million disbursed.
Project financing. The project was financed by an IDA grant of US$73.10 million. Revised estimate of the grant was US$9.40 million. As there was no formal project restructuring, the project team clarified that this was reflected from a disbursement processing perspective, as the unwithdrawn financing balance of the Financing (SDR 44,552,887.8) had been cancelled as of the date of the cancellation notice (Sept. 12,2016), whereas eligible expenditure needed first to be documented before the Client refund the balance of advances. Amount disbursed of IDA grant at closure was US$3.11 million as the grant was cancelled (discussed below in more detail). There was parallel financing from the African Development Bank (AfDB) for complementary activities associated with support for the Inga 3 BC project's preparation of US$33.40 million. The activities financed by AfDB were ongoing when this project closed (ICR, page 19).
Borrower contribution. None was planned. There was no contribution from the borrower during project implementation.
Dates. Significant changes occurred a year after effectiveness on September 8, 2014, when 4.3% of the grant was disbursed (ICR, pages 18-19). These changes put the project on hold and ultimately led to the revised estimate and eventually cancellation of loan two years after effectiveness. These changes were as follows: (i) Two presidential orders were issued on October 13, 2015 authorizing the creation of the Agency for Development and Promotion of Grand Inga (ADPI- RDC), as a specialized unit within the President's Office in charge of the Grand Inga Project, without prior Bank consultation. The creation of the unit was inconsistent with Policy Letter underpinning the project, which envisaged the establishment of an independent agency with fiduciary responsibility. This change immediately blocked further use of IDA funds, due to lack of an operational implementing entity. (ii) During the same period, the authorities announced that a bidder would be selected by September 2016. Although critical studies planned under the project were lagging - a year after effectiveness (the key technical studies needed for the bidding process for the Inga 3 BC development such as feasibility studies, environmental and social safeguards instruments and geological and geotechnical investigations were incomplete), bidding documents were issued to pre-qualified bidders in February 26, 2016. The bidding documents lacked the critical information required for proper bid evaluation. This was likely to result in an evaluation based mainly of qualitative criteria, which meant that most of the project would be specified after the selection of the concessionaire. Key missing information included, clarity on the off-take arrangements (that is, terms governing the sale of power to South Africa, the mining companies and the National Electricity Company (SNEL)), the geotechnical and hydrological data, the obligations relating to future Inga phases to protect the DTCs sovereign interests in subsequent Inga developments and the applicable legal framework and tax regime. Bids were received from two pre-qualified bidders.
Withdrawal applications and procurement approvals were suspended due to the abrogation of

implementation arrangements governing the project. The government was informed by letter dated December 17, 2015, indicating that resumption of activities would require prior project restructuring and listed the information that would be needed by the bank to consider such restructuring (mainly regarding the selection process to award the concession, the implementation arrangements for the two project components and the progress on discussion with the Republic of South Africa on the off-take). As a result, all expenses incurred afterward were deemed ineligible (except for the external audit at project's closing). Despite extensive discussions, no satisfactory solutions were reached and the project was suspended on July 23, 2016, based on substantial breaches to the provisions of the Financing Agreement. The project was subsequently cancelled on September 12, 2016, based on the failure to provide evidence of taking actions required for lifting the suspension, when 4% of the grant was disbursed.

3. Relevance of Objectives

Rationale

Before appraisal, only 9% of households had access to electricity services in the Democratic Republic of Congo (DRC) and even the few households and businesses that were connected to the grid, power outages of on average three hours in more than 180 days per year were common. Although the installed capacity of 2,442 Megawatt was (MW) (of which 99% hydropower), only 1,281 MW of the capacity was operational and electricity demand/supply projections indicated that DRC would require an additional capacity of 4,000 MW by 2020. Addressing energy shortages through using the hydropower potential (with 40% located at the Inga site on the Congo river and the remainder spread out over the smaller hydropower sites on DRCs many streams and rivers) was cost-effective as compared to other technologies (such as thermal, wind and solar). Exploiting the hydropower potential of DRC also had implications for regional power exports from DRC, given that the hydropower potential of DRCC was well beyond that could be consumed or domestically financed in the coming years and DRC was already connected to the Southern Africa Power Pool (SAPP) (SAPP connects the power systems of Botswana, Lesotho, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe and DRC).
The PDO was consistent with the government strategy at appraisal. The Second Poverty Reduction Strategy of 2011 indicated the need for developing Public-Private Partnerships (PPPs) in the infrastructure sector identified the need for investments Inga 3 for improving access to electricity.
The PDO was consistent with the Bank country strategy. The second objective of the Country Assistance Strategy (CAS) for 2013-2016 highlighted the need for boosting competitiveness for accelerating private-sector led growth and job creation (PAD, page 6). The Bank's Systematic Country Diagnostic of 2017 identified hydropower potential as the mainstay of the energy sector and with the potential to yield vast and transformative returns in economic development for the country and for the continent.

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To contribute to the sustainable development of Inga 3 Basse Chute (BC) and selected mid-size hydropower projects.

Rationale

The following activities were carried out under the project before it was cancelled:

- Technical assistance was provided for the structuring study for the establishment of the Agency for the Development and Promotion of the Grand Inga (ADELPI) and for the establishment of the Inga 3 Technical Cell (CG!3). The activities that were financed included, the structuring study for establishing ADELP1, the study for establishing the Inga 3 Technical Cell (CG13) including the Project Management Manuals, Human Resource Plans and the accounting software.
- Financing was provided for the panel of experts on environmental and social safeguards and dam safety), CG13 staff (including the Project Implementing Unit Coordinator, financial management and procurement Specialist) and operating cost (including office rent, supervision mission costs). After the dissolution of CG13, part of the staff financed by the project were transferred to a new structure at the Ministry of Energy focused on developing midsize hydropower plants.

The projects activities were put on hold 13 months after effectiveness before the project was suspended. Eventually, the project was cancelled with 4.3% of the grant disbursed.

Rating

Negligible

Rationale

No outcomes achieved. The project was cancelled.

Overall Efficacy Rating

Negligible

Primary reason

Low achievement

5. Efficiency

While several activities were carried out, no outputs were finalized as planned. The project was cancelled two years after effectiveness with 4.3% of the grant disbursed.

Efficiency Rating
Negligible

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the PDO to the country and Bank strategies for DRC was rated high. Efficacy and efficiency are rated negligible for this TA project that used 4.3% of the grant of US$73.1 million before being cancelled. Therefore, the overall project outcome is rated Highly Unsatisfactory.

a. Outcome Rating
Highly Unsatisfactory

7. Risk to Development Outcome

Not applicable as no development outcomes were achieved.

8. Assessment of Bank Performance

a. Quality-at-Entry
This project was prepared based on the experience of the Bank in the structuring and financing of large hydropower projects and other infrastructure Public Private Partnerships (PPPs) (such as the Nam Theun 2 in Laos, Bujagali in Uganda, Felou in Mali and Lom Pangar in Cameroon), from the experience of lessons from the extractive sector in DRC and from the experiences of the Regional and Domestic Power Market Development Project (PMEDE) and the Southern African Power Market Project (SAPMP) (PAD, pages 17-

18). Lessons incorporated at design from hydropower projects included providing support for hydropower activities that extended beyond lending such as, technical assistance, knowledge sharing, policy dialogue and sector work activities. Lessons incorporated at design from the experience of extractive sector activities in DRC included technical assistance activities aimed at introducing the principles of competition, transparency of contract and supporting demand side accountability platforms. Lessons from the PMEDE and SAPMP projects included, activities aimed at enhancing DRC's National Electricity Company's (SNEL) capacity in corporate governance and operational and financial performance.
There were significant shortcomings in quality at entry and project design:

- **Coordination with development partners**. The coordination arrangements with development partners envisioned at design were inadequate. The absence of sustained coordination between the World Bank and the African Development bank on the implication of changes in the governance framework and the selection process to award the concession ultimately resulted in a clear disconnect between the two institutions, which in turn weakened the Bank's intention to have a structured competitive selection process (rather than a quasi-negotiated deal).
- **The design underestimated the risks associated with political economy constraints**. Political interference to private concessionaire selection ultimately led to the cancellation of the project. The design did not incorporate adequate mechanisms for engaging at the senior political level with Inga decision makers.
- **The design had put two components characterized by different and independent risk profiles.**
- **Lending Instrument**. A country-specific lending instrument turned out inappropriate for a project that had regional implications on both technical and commercial aspects and that required coordination with the Southern Africa Power Pool (SAPP). The project did not have adequate mechanisms for engagement with South Africa and the SAPP regarding the evacuation of the power to be produced at Inga. This was critical for the viability of the Inga 3BC project.

Quality-at-Entry Rating
Moderately Unsatisfactory

b. Quality of supervision
Five Implementation Supervision Reports (ISRs) were filed over a 2.5- year project implementation period. Although the supervision team did not resolve the issues that rose during implementation (due to the unilateral action on the part of the government), as discussed in Section 2e, the Bank however effectively protected IDA resources by using the legal covenants in the Financing Agreement to suspend and then cancel the project when it became clear that the selection process was flawed and that the government had deviated from the provisions agreed under this project.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The three key outcome indicators - the establishment of the Inga Development Authority and the availability of bidding documents for the Inga 3 BC development and for the selection for mid-size hydropower projects were appropriate for this TA project.

b. M&E Implementation

The M&E mechanism could not be tested during project implementation as the main project activities were put on hold 13 months after effectiveness.

c. M&E Utilization

The M&E mechanism could not be tested during project implementation as the main project activities were put on hold 13 months after effectiveness.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Other than environmental assessment (OP/BP 4.01), seven safeguard policies were triggered at appraisal: Natural Habitats (OP/BP 4.04): Indigenous Peoples (OP/BP 4.10): Physical Cultural Resources (OP/BP 4.11): Involuntary Resettlement (OP/BP 4.12): Forests (OP?BP 4.36): Safety of Dams (OP/BP 4.37): and, Projects on International Waterways (OP/BP 7.50). (PAD, page viii).
Given the limited activities supported by the project before the project was cancelled, compliance with safeguards remained untested.

b. Fiduciary Compliance

Financial management. After the cancellation of the project, there were delays in refunding of resulting balance of advances, due to delays associated with documenting eligible expenditures. The assessment of the

eligibility of expenditures incurred under the project was completed on January 17, 2017 and the refund of outstanding balances was made on March 8, 2017 (ICR, page 31).
Procurement According to the clarifications provided by the team, procurement with IDA funds was satisfactory and that it became unsatisfactory following the abrogation of abrogation of fiduciary and procurement arrangements governing the project.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Highly Unsatisfactory	Highly Unsatisfactory	---
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Quality of M&E	Modest	Modest	---
Quality of ICR		Substantial	---

12. Lessons

The ICR draws the following main lessons from the experience of implementing this project, with some modification of the language (ICR, pages 32-33).
(1) Clear commitments on strategic directions need to be secured upfront from the ultimate decision-making authority in fragile environments like the DRC. This would help in mitigating the Bank's exposure to reputational risks associated with potential deviation from strategic decisions agreed upon at appraisal.
(2) Political commitment is required for a large-size project with significant fiscal impact. Building coalition at the national and regional levels (for example, including with South Africa in this project) and leveraging political buy-in could help in mitigating the risks associated with political stakeholders inclined to prioritize speed over quality of preparation.
(3) A careful assessment should be made at design, whiling combining in a same project, two components characterized by different and independent risk profiles. In this project, having an independent technical assistance project focused on mid-size hydropower projects run in parallel, could have accelerated the implementation of these activities while preserving if from collateral cancellation linked with the government's decisions on non-correlated matters (that is, Inga 3BC).
(4) Continuous coordination between development partners contribute to effectively speaking with one voice to the government. In the case of this project, while the Bank cancelled the project activities in the wake

of the government's unilateral decision, the activities by the other development donor were still ongoing when this project was cancelled by the Bank.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is concise and well-written. The ICR candidly describes the issues encountered during implementation, in the wake of the government's decision to create a specialized unit within the President's Office in charge of the Grand Inga Project, without prior consultation with either the bank or the development partners, which eventually led to the cancellation of the project. It is also candid in acknowledging the issues that should have been addressed at Quality-at-entry such as lack of coordination between the bank and other development partners and inappropriateness of the decision to combine in the same project two components characterized by different and independent risk profiles. The lessons drawn from the experience of implementing this project are based on evidence and analysis. The ICR could have benefitted from providing more details into financing that varies across the ICR but without full explanation, i.e., (i) the process of the revision of the original IDA amount to US$9.40 million is not clear (this was subsequently clarified with the team); and (ii) the ICR's front cover indicates the IDA grant amount of US$64.5 million, while the IDA commitment is shown as US$73.1 million in the main text (p.2). The ICR does not rate the Quality of M&E in the main text (p.30) but assigns a modest rating in the data sheet (p.2).

a. Quality of ICR Rating
Substantial