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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
LAKE TITICACA LOCAL SUSTAINABLE DEVELOPMENT PROJECT
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BOLIVIA
LAKE TITICACA LOCAL SUSTAINABLE DEVELOPMENT

CONTENTS

	Page
A. SUMMARY	3
B. PROJECT STATUS.....	4
C. PROPOSED CHANGES	5
ANNEX 1: RESULTS FRAMEWORK AND MONITORING.....	9

LAKE TITICACA LOCAL SUSTAINABLE DEVELOPMENT

RESTRUCTURING PAPER

A. SUMMARY

1. The Project Development Objective (PDO) of the Bolivia Lake Titicaca Local Sustainable Development Project, an SDR12.8 million (US\$20 million equivalent) credit approved by the World Bank Board on December 20, 2007, is to contribute to local sustainable development in the Bolivian part of the Lake Titicaca watershed. The Project has been under implementation for just over four years and progress toward achievement of these objectives is currently rated as moderately unsatisfactory. The proposed restructuring is intended to rectify deficiencies in the Project's implementation arrangements, and to bring the Project back to satisfactory implementation.

2. During the supervision mission carried out in June 2011, the Ministry of Cultures, under which lies the Vice Ministry of Tourism (VMT), an implementing entity for the Project, expressed the preference that the responsibilities assigned to it by the Project be limited to the competencies of said Ministry. At that time and subsequently, substantial changes and turnover of staff within the VMT's Project executing unit (Equipo Técnico del Proyecto, ETP) considerably reduced its implementing capacity. In response to these developments and in order to facilitate timely implementation and completion of activities and to support completion of the PDO, changes in the implementation arrangements were agreed. In particular¹:

(i) Institutional arrangements - As of January 1, 2012, the Fondo Nacional de Inversión Productiva y Social (FPS) became the sole agency implementing Project investments and technical assistance activities. At the Government's request, the VMT and the ETP under the Ministry of Cultures is no longer implementing these activities as of this time.

(ii) Project scope – The Project scope is to be reduced to activities already completed; activities already initiated by VMT, but not completed, which have been transferred to FPS; and other works originally assigned to FPS for implementation which will be completed by the extended Project closing date of February 2, 2015. Outstanding payments and audits for Project activities carried out under VMT responsibility will be completed by June 30, 2012.

(iii) Monitoring and evaluation - In light of the changes in Project scope outlined above, the Project's results framework will be updated to reflect the closure and cancellation of certain activities and the removal or re-targeting of associated indicators.

¹ While initially designed to take effect by December 31, 2011 to coincide with the end of VMT activities, the restructuring package has taken longer to process due to the need reach agreement on the issue of whether to extend the Project, and whether or not to undertake partial cancellation. Formal communication of this agreement was not completed until April. The ETP has also needed time to account for costs in its records. Meanwhile, however, Project implementation has continued through a productive relationship with FPS, as the restructuring was not required for FPS to proceed with the project activities under their responsibility.

(iv) Project closing date - To accommodate changes in implementation arrangements and to allow for completion of the remaining Project activities, as part of the restructuring the Project closing date will be extended, for the first time, upon the Recipient's request from June 30, 2013 to February 2, 2015.

B. PROJECT STATUS

3. The Project's overall implementation progress and its progress towards achievement of the PDO are currently rated as moderately unsatisfactory. The Project has only disbursed a total of \$2.39 million or 11.95% of the total loan amount since effectiveness. Due to aforementioned frequent changes in the ETP, contracting of consultants was at a standstill during FY 2011, making several project activities unachievable within the initial Project time frame. These delays result from institutional challenges in the ETP and the need for additional time to gain community acceptance of subprojects. In addition, Project implementation has suffered from fluctuating support within the Vice Ministry of Tourism, which has requested that the Project be removed from its responsibility on the premise that Project activities lie outside the VMT's mandate.

4. Project ratings have been mixed as a result of the above challenges. Project Management and Financial Management are rated as moderately satisfactory and Procurement and Monitoring and Evaluation are rated as moderately unsatisfactory. Counterpart funding and compliance with applicable safeguard policies are rated satisfactory.

5. The Bank team is working very closely with the implementing agencies to resolve hurdles in Project implementation and to ensure that FPS is well placed to move the project investments forward as the main implementing agency, with a supervision missions carried out in June 2011 and March 2012, and another mission planned for June. After a year of limited to no contracting, several activities have been contracted in the first half of FY2012 (including project works and studies related to water supply systems, community outreach programs and supervision contracts). The team's TTL and fiduciary experts are engaged in a constant dialogue with FPS and VMT. In addition, a number of measures were adopted during the latest supervision mission (March 1-13, 2012) to accelerate contracting and execution of sub-projects by FPS. It is expected that the changes introduced in the restructuring will contribute to an improvement on the overall implementation performance ratings and progress towards achievement of the PDO.

6. The Project is in compliance with the conditions for closing date extensions outlined in OP/BP 13.30. Under the proposed restructuring the Project's objectives continue to be achievable; the performance of the Recipient and of the implementing agency are satisfactory; the executing entity has submitted an Implementation Action Plan for completing Project activities within the extension period; neither the Credit in

particular nor the country in general, is under suspension of disbursements; and there are no overdue audit reports or interim financial reports².

C. PROPOSED CHANGES

7. In light of the fluctuating support and difficulties experienced by the VMT’s project executing unit (ETP) and in response to a request from the Ministry of Cultures seeking to reduce its involvement in project activities lying outside of its core competencies, FPS has become the only agency implementing Project investment and technical assistance activities as of January 1, 2012. These changes in implementation arrangements would be formalized as part of the restructuring. In addition, the Project scope is being reduced to those activities already completed, those other activities initiated by VMT which have been transferred to FPS for completion; and civil works originally assigned to FPS for implementation which can be completed by the proposed Project closing date of February 2, 2015.

8. The table below identifies the activities contemplated in the Project’s original Financing Agreement, and indicates which of these will be removed from or retained in the restructured Project. The only components being dropped are those that were under VMT responsibility that have not yet been initiated; some of the retained activities are slightly modified or reduced as recorded in italics in the table.

Components

9. The proposed changes to the Project’s components are detailed in the table below.

<u>Part 1. Support to Tourism Development and Cultural Protection</u>	Retained	Dropped
<p>Part 1 (a) Carrying out by Municipalities and Recipient’s community groups with FPS support, of infrastructure investments to facilitate the enhancement of cultural, social, economic and environmental assets, including, <i>inter alia</i>:</p> <p>(i) the improvement of tourist sites</p> <p>(ii) the provision of public rest areas and bathrooms</p> <p>(iii) the establishment of interpretation centers, bike paths and small docks.</p>	<p>X</p> <p>X <i>(Modified to not include bike paths)</i></p>	<p>X</p>
<p>Part 1 (b) Carrying out of community investments with VMT support to enhance cultural, social, economic, and environmental assets, including, <i>inter alia</i>: (i) local environmental improvements; (ii) guest houses; and (iii) markets and tourist attractions.</p>		<p>X</p>

² The submission of the 2011 Audit for FPS was waived by the Bank due to the low volume of processes carried out by FPS during that year. The final audit report for VMT is due June 30, 2012 and therefore not yet due.

<p>Part 1 (c)</p> <p>(i) Protection of cultural heritage monuments in Lake Titicaca's Isla del Sol Protection of cultural heritage monuments in Lake Titicaca's Isla de la Luna</p> <p>(ii) restoration of pre-Hispanic agricultural landscapes, trails and artistic and historic assets in colonial churches.</p>	<p>X <i>(Modified to include only design)</i></p>	<p>X</p> <p>X</p>
<p>Part 1 (d) Provision of grants for community development for tourism activities, including the production of handicrafts and the financing of cultural events and strategic studies.</p>		<p>X</p>
<p><u>Part 2. Basic Services</u></p>	<p>Retained</p>	<p>Dropped</p>
<p>Part 2 (a) Carrying out of: (i) water and sanitation infrastructure for Lake Titicaca's small rural communities; and (ii) training and provision of technical assistance to the EPSA.</p>	<p>X</p>	
<p>Part 2 (b) Provision of technical assistance, goods and works to develop sanitation facilities and extend and rehabilitate existing sewerage networks and treatment plans in the cities of Copacabana, Tiquina, Achacachi, Tiwanaku and Viacha.</p>	<p>X <i>(Modified to also include technical assistance, goods and works to develop <u>water supply systems</u> in the five cities)</i></p>	
<p>Part 2 (c) Provision of technical assistance, goods and works to improve solid waste collection for the Recipient's cities of Copacabana, Achacachi, Tiwanaku and Tiquina, including: (i) street cleaning; (ii) transportation; (iii) recycling; and (iv) final disposal in sanitary landfills.</p>	<p>X</p>	
<p>Part 2 (d) Provision of technical assistance to ensure sustainable service provision, through the creation of EPSA that will manage water, wastewater and solid waste services and whose operating and maintenance costs are to be covered by the users fees by the end of the Project.</p>	<p>X</p>	
<p>Part 2 (e) Provision of FPS Operating Costs for the carrying out of basic service activities under Parts 2 and 1 (a) of the Project and financing of audits for the parts of the Project executed by FPS.</p>	<p>X <i>(Modified to include all audits for the Project)</i></p>	
<p><u>Part 3. Institutional Strengthening and Project Management</u></p>		

<p>Part 3 (a) Provision of technical assistance to:</p> <p>(i) carry out tourism studies to support a long term program for tourism development in the Lake Titicaca basin and neighboring areas</p>		X
<p>(ii) develop a marketing strategy to promote the Recipient's international tourism potential, through, <i>inter alia</i>, the provision of training in communications and technology for VMT.</p>	<p>X <i>(Modified to only include participation of VMT in tourism fairs)</i></p>	
<p>Part 3 (b) Provision of technical assistance to strengthen the Recipient's municipalities' capacity, including the design of medium term and long term plans for their sustainable development.</p>		X
<p>Part 3 (c) Provision of technical assistance to strengthen the local communities' capacity to participate in tourism development activities.</p>		X
<p>Part 3 (d) Provision of technical assistance to strengthen the capacity of the Implementing Entities, including the creation of an advisory group on lake management comprised of Recipient's representatives and international experts.</p>		X
<p>Part 3 (e) (i) Provision of technical assistance to update annually the technical, tourism and social data of the State of the Lake Report; and (ii) execution of a communication strategy summarizing the State of the Lake Report, with a specific focus on the community living within the Project Area.</p>		X
<p>Part 3 (f) Strengthening the operational and management policy making capacity of VMT for the purposes of implementing the Project including the carry out of Project audits, through, <i>inter alia</i>, the acquisition and utilization of goods and the provision of technical assistance and training required therefore.</p>		X

Results/indicators

10. The proposed changes on the results framework include specifically (i) removing current project development objective indicators one (Geo-tourism survey ratings for key areas) and three (Quality of the State of the Lake Reports); (ii) removing intermediate results indicators 1.2 (number of cultural heritage sites protected) and 1.3 (number of small businesses supported) to reflect the reduction in scope of activities encompassed under Component 1; (iii) updating the general water and urban core indicators in the context of the Project's revised scope; (v) combining intermediate outcome indicators 3.1 (number of tourism studies) and 3.2 (number of municipal land-use management plans) into a single indicator, and revising target values to accommodate the reduction in scope

of the Technical Assistance component. The Project will measure these indicators according to the arrangements described in the results framework in Annex 1.

Institutional arrangements

11. FPS will become the only implementing agency. VMT and the ETP under the Ministry of Cultures no longer have a role in Project implementation. Outstanding payments and audits for Project activities carried out under VMT responsibility will be completed by June 30, 2012.

Procurement

12. It will not be necessary to amend existing procurement arrangements within the Financing Agreement, which already provide for all selection methods envisaged under the proposed restructuring. The FPS procurement plan will be updated to reflect the changes proposed in this restructuring.

Financing

13. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”) in light of the proposed Restructuring, the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category. As a result of substantial cost increases for works and uninformed cost estimates at appraisal (which have since been carefully revised), the total credit amount is necessary to cover the rest of the activities and remains unchanged at SDR 12,800,000. All unused funds from canceled VMT activities will be transferred to FPS to allow for full execution of the remaining activities:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) (a) Works, goods, training, consultants services under Part 1 of the Project; and	2,288,590	100%
(b) Works, goods, training, consultants services and VMT Operating Costs under former Parts 1 (b), (c) and (d) of the Project	180,073	100% (Expenditures incurred and/or paid by VMT under Category (1)(b) before and/or on December 31, 2011)
(2) Works, goods, consultants services and training under Part 2 of the Project, including audits	8,719,356	100%

(3) Goods, consultants services, training and VMT operating costs under Part 3 of the Project, including audits	686,506	100% (Expenditures incurred and/or paid for by VMT under Category 3, before and/or on June 30, 2012)
(4) FPS Operating Costs	598,953	5% of the total cost of the works under the Project paid in tranches as set forth in the Operational Manual
(5) Refund of Project Preparation Advance	326,522.05	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	12,800,000	

Safeguards

14. This amendment does not trigger any additional safeguards and no change of safeguards category is required with these changes. The safeguards documentation will be updated to reflect the changes in institutional arrangements.

ANNEX 1:
Results Framework and Monitoring (*includes Core Indicators*)
BOLIVIA: LAKE TITICACA LOCAL SUSTAINABLE DEVELOPMENT

Project Development Objective (PDO): Contribute to local sustainable development in the Bolivian part of the Lake Titicaca watershed.									
Revised Project Development Objective: N/A									
PDO Level Results Indicators*	Core	D=Dropped C=Continue N= New R=Revised	Unit of Measure	Baseline	Cumulative Target Values**		Frequency	Data Source/ Methodology	Responsibility for Data Collection
					YR 2	YR 5			
Indicator One: Urban Environmental Sustainability Index for key communities.	<input type="checkbox"/>	C	Index from 1 to 4, with 1 being the highest score	Copacabana – 4 Achacachi – 3 Tiquina – 4 Tiwanaku – 4 Viacha - 4	3 2 3 3 3	2 2 2 2 2	Trimestral Progress reports	Index score based on aggregate of water supply, wastewater, solid waste service and financial sustainability	ETP
INTERMEDIATE RESULTS									
Intermediate Result Indicator	Core	D=Dropped C=Continue N= New R=Revised	Unit of Measure	Baseline	Current (August 2011)	End of Project	Frequency	Data Source/ Methodology	Responsibility for Data Collection
Intermediate Result (Component One): Tourism Support									
1.1: Number of tourism improvement projects	<input type="checkbox"/>	C	Number	0	2	2	Trimestral progress reports	Municipal governments report to FPS	Municipal governments
Intermediate Result (Component Two): Basic services									
2.1: Number of rural towns provided with improved water and sanitation services	<input type="checkbox"/>	C	Number	0	10	20	Trimestral progress reports	FPS reports	FPS

2.2: Number of urban communities provided with adequate wastewater services	<input type="checkbox"/>	C	Number	0		Yr 3 – 5 cities complete treatment plants	Trimestral progress reports	FPS reports	FPS
2.3: Number of cities with adequate solid waste services	<input type="checkbox"/>	C	Number	0		Yr 3 – 3 cities with adequate solid waste collection	Trimestral progress reports	FPS reports	FPS
2.4: Project Beneficiaries	<input checked="" type="checkbox"/>	N	Number	0			Trimestral progress reports	FPS reports	FPS
2.5: Improved community water points constructed or rehabilitated under the project	<input checked="" type="checkbox"/>	N	Number	0			Trimestral progress reports	FPS reports	FPS
2.6: New piped household connections that are resulting from the project intervention	<input checked="" type="checkbox"/>	N	Number	0			Trimestral progress reports	FPS reports	FPS
2.7: Number of other water service providers that the project is supporting	<input checked="" type="checkbox"/>	N	Number	0			Trimestral progress reports	FPS reports	FPS
2.8: Number of people in rural areas provided with access to improved water sources under the project	<input checked="" type="checkbox"/>	N	Number	0			Trimestral progress reports	FPS reports	FPS
2.9: Number of people in urban areas provided with access to improved sanitation under the project	<input checked="" type="checkbox"/>	N	Number	0			Trimestral progress reports	FPS reports	FPS
2.10: Number of people in rural areas provided with access to improved water sources under the project	<input checked="" type="checkbox"/>	N	Number	0			Trimestral progress reports	FPS reports	FPS
Intermediate Result (Component Three): Institutional Strengthening									
3.1: Number of activities aimed at promoting the region's international tourism potential	<input type="checkbox"/>	C	Number	0	3	3	Trimestral progress reports	FPS	FPS

***Please indicate whether the indicator is a Core Sector Indicator (see further <http://coreindicators>)**

****Target values should be entered for the years data will be available, not necessarily annually**