



The World Bank

EC Manta Public Services Improvement Project (P143996)

REPORT NO.: RES38825

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF THE
EC MANTA PUBLIC SERVICES IMPROVEMENT PROJECT
APPROVED ON AUGUST 8, 2013
TO THE
MUNICIPALITY OF MANTA

WATER GLOBAL PRACTICE

LATIN AMERICA AND THE CARIBBEAN REGION

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ABBREVIATIONS AND ACRONYMS

C-RAP	Corrective Resettlement Action Plan
EPAM	Manta Municipal Water Utility - <i>Empresa Pública Municipal de Agua de Manta</i> ,
ERP	Enterprise Resource Planning
GAD	<i>Gobierno Autónomo Descentralizado</i> , Autonomous Decentralized Government
IBRD	International Bank for Reconstruction and Development
Km	Kilometer
MS	Moderately Satisfactory
NO	No Objection
OP	Operational Policy
PDO	Project Development Objective
PIU	Project Implementation Unit
RP	Restructuring Paper
WSS	Water Supply and Sanitation
WTP	Water Treatment Plant



BASIC DATA

Product Information

Project ID P143996	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 08-Aug-2013	Current Closing Date 31-Dec-2019

Organizations

Borrower Municipality of Manta	Responsible Agency Municipality of Manta
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Project Development Objective (PDO)

Original PDO

The Project Development Objective (PDO) is to support the Municipality of Manta in increasing the quality and sustainability of public services for water, sanitation and urban mobility.

The objective will be achieved by (i) increasing availability of water supply and efficiency of water and sewerage services; (ii) improving urban mobility and accessibility through improvements to the street network, including sidewalks; and (iii) enhancing the capacity of the municipal government in planning and managing the provision of water and sanitation and urban transport services.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-82890	08-Aug-2013	20-Nov-2013	18-Jul-2014	31-Dec-2019	100.00	93.76	6.24



Policy Waiver(s)

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

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. **This Restructuring Paper (RP) seeks the Country Director's approval of a Second Order Restructuring of Loan 8289-EC for the Manta Public Services Improvement Project (P143996).** The proposed restructuring entails the following changes to the Finance Agreement: (i) extending the Closing Date of the Project by 6 months, from December 31, 2019 to June 29, 2020; (ii) reallocating funds between disbursement categories; and (iii) updating the implementation schedule to reflect the extended closing date.

A. Project Background

2. **The loan in the amount of US\$100 million was approved on August 8, 2013 and became effective on July 18, 2014.** The Project Development Objective (PDO) is to support the Municipality of Manta in increasing the quality and sustainability of public services for water, sanitation, and urban mobility by: (i) increasing availability of water supply and efficiency of water and sewerage services; (ii) improving urban mobility and accessibility through improvements to the street network, including sidewalks; and (iii) enhancing the capacity of the municipal government in planning and managing the provision of water and sanitation and urban transport services.

3. **Since its approval, the Project has been subject to three administrations, the transitions for which have resulted in implementation delays.** Between the 11 months that transpired from loan approval to effectiveness, a change in municipal administration, together with resulting widespread reshuffling of staff and roles within municipal units, including the Project Implementation Unit (PIU), substantially impeded project startup and implementation. This first change in municipal authorities also led to a shift in priorities and the envisaged municipal development model. As a result, a number of originally planned works that had been ready to be launched were dropped from the Project's scope, and other infrastructure investments, for which designs had yet to be prepared, were prioritized. Exacerbated by lack of experience in implementing World-Bank-Financed projects by the new personnel of the PIU and the Municipal Administration, these priority changes contributed to implementation delays. More recently, following the 2019 municipal elections, the Project has now seen its second change in municipal authorities, which has, again, led to important delays in implementation. Although the new administration has shown significant interest and commitment to complete the Project successfully, changes in key PIU staff and Directors of the Autonomous Decentralize Government (GAD) Units involved in the Project have again slowed implementation given their lack of experience with World Bank-financed projects.

4. **The effects of the 7.8 magnitude earthquake that hit the city of Manta in April 2016 resulted in the need for two restructurings to help the city recover.** The first restructuring was approved in June 2016, to adapt the Project to circumstances in the wake of the April 2016 earthquake. This Second-Order restructuring comprised: (i) the reallocation of loan proceeds to allow for the financing of emergency response and reconstruction activities, particularly the restoration of water supply and sanitation services; (ii) associated modifications to component costs and disbursement categories; and (iii) modifications to the Results Framework to reflect such changes. The subsequent Second-Order Restructuring, approved in May 2018, comprised: (i) a one-year extension of the original loan closing date from June 30, 2018 to June 30, 2019; (ii) changes in the disbursement estimates and implementation schedule;



(iii) a reallocation of loan proceeds between disbursement categories; and (iv) changes in the Results framework and the methodology for the economic analysis that was employed at Appraisal.

5. **A third and fourth restructuring to respond to the Borrower's request were approved.** The third restructuring was approved in March 2019 and required the RVP's approval to allow for (i) the loan proceeds to be used for expenditures on land acquisition to duly compensate sixteen landowners affected by the reconstruction of *Vía Barbasquillo*; and (ii) to reallocate resources between expense categories. Finally, the fourth and latest restructuring was approved in June 2019 to: (i) extend the loan closing date by 6 months, from June 30, 2019 to December 31, 2019; and, (ii) change the disbursement estimates and implementation schedule. The PDO has remained unchanged throughout these restructurings.

B. Overall Project Status

6. **As of September 2019, US\$93.8 million (94 percent of loan proceeds) have been disbursed, 100 percent have been committed and all main procurement processes have been finalized.** Par Vial and other contracts related to the Institutional Strengthening component have been completed satisfactorily. However, remaining works related to the water and sewerage network that are critical to achieving PDO-level indicators, are facing delays and cannot be completed by the current closing date, namely: (i) the rehabilitation of water and sewerage systems in Manta, for which a number of challenges (e.g. delays in procuring main equipment; completing the interconnection of *Santa Martha* reservoir with the main network; tertiary network; concluding the Umiña wastewater pumping stations; including obtainment of easements for the *Vallejo-Araujo* collector), are hindering timely completion of the works; and (ii) the installation, testing and commissioning of *Caza Lagarto*, *El Oro* and *El Ceibal* raw water pumping stations. The project doesn't have any outstanding audit reports and the audit reports are satisfactory to the Bank.

C. Status by Component

Following is a detailed description of the implementation status of each of the five Project components.

7. **Component 1: Investments in Water Supply and Sewerage (IBRD financing US\$41 million, 77 percent disbursed and documented, 100 percent committed).** Main activities under this component include: (i) the construction of *Los Geranios* sewer main (US\$1.3 million); (ii) the construction of the *Santa Martha* and Colorado drinking water reservoirs (US\$2.99 million); (iii) WSS network rehabilitation activities performed as part of the *Barbasquillo*, *Flavio Reyes*, *Calle 13* and *24 Avenue* street upgrading contracts (US\$3.24 million); (iv) WSS rehabilitation activities performed as part of the Par Vial Urban Upgrading contract (US\$ 10.37 million); and (v) the Manta District WSS networks' rehabilitation contract (US\$19.72 million). Activities (i), (ii), (iii) and (iv) have been completed. Regarding activity (v), although works related to the construction and upgrading of main water and sewerage pipelines are over 98 and 95 percent completed, respectively, progress on the tertiary water and sewerage networks are delayed and just over 46 and 75 percent completed, respectively. The current closing date would not allow sufficient time to complete pending works mentioned above. Hence, the Bank would have no way of ensuring that these works will be completed following Project close, which could generate unrest within the community and a high risk of accidents, given that there are many open fronts, with the consequent reputational risk for the Bank.

8. **Component 2: Investments in Road Improvement (IBRD financing US\$45.2 million; 93 percent disbursed and documented, 100 percent committed).** Main activities under this component include: (i) paving of 9.3 km of dirt streets in the "*15 de Septiembre*" neighborhood (US\$3.65 million); (ii) works prioritized by citizens in the area as part of the participatory municipal planning and budgeting process including the construction of three stairways (192 meters), 4.6 km paved streets and 5.3 km of sidewalks in other poor peri-urban areas of the city; (iii) street upgrading activities along *Barbasquillo Avenue*, *Flavio Reyes Avenue*, *Calle 13* and *24th Avenue*; and (iv) urban upgrading activities along *Par Vial*. All activities listed above have been finalized according to their original designs. The PIU has submitted the addendum number 2 for US\$ 1.2 million to the Bank's *No Objection*. This addendum seeks to incorporate new



items in the immediate vicinity or along the *Par Vial*, including traffic lights, urban furniture and repaving for five streets, utilizing unused resources as a result of cost-savings in the implementation of the contract so far. A net total US\$1.5 million in savings is expected even after implementation of the additional works included in the addendum.

9. Component 3: Institutional Strengthening (IBRD financing US\$3.69 million; 74 percent disbursed and documented, 100 percent committed). This component financed: (i) the development of an Enterprise Resources Planning (ERP) system; (ii) a client database for the Manta Municipal Water Utility (*Empresa Pública Municipal de Agua de Manta*, EPAM); (iii) the procurement and installation of laboratory equipment; (iv) the construction of the building to host said laboratory; (v) the hiring of consulting services for the structuring of a strategic alliance with a private operator aimed at improving EPAM's performance; and (vi) an urban mobility plan which is critical for the City of Manta. All of these activities have been completed.

10. Component 4: Project Management (IBRD financing US\$0.75 million, 101 percent disbursed and documented). This component covers PIU consultants and, following the third restructuring, includes land acquisition compensation to landowners and the implementation of the C-RAP for *Via Barbasquillo*. Completion of payments to the affected landowners is still pending. The Municipality of Manta has enacted a Municipal Resolution that will allow them to proceed with the payments to landowners affected by *Via Barbasquillo* works, following the World Bank's policies and the C-RAP. To date the GAD reported the following progress: 15 out of 16 owners affected have been notified; 1 is pending because they have not been able to find the owner, although the GAD continues to work on it. Out of the 15 notified: 11 have already accepted and will be fully compensated by proposed closing date; 4 are pending documentation to be submitted; likewise, the C-RAP set measures for these situations by depositing the compensations in an escrow account, assuring that funds are available for them, publishing announcements for people who are not easy to locate, etc. Because it is expected that all of the compensations will be resolved in compliance with the C-RAP, the rating of the project is not expected to be adversely affected. The Bank is closely monitoring this process and the PIU is reporting weekly.

11. Component 5: Emergency response (IBRD financing US\$6.7 million, 83 percent disbursed, 100 percent committed). Activities financed under this component include: (i) a temporary bridge-financing of operational expenses of EPAM (US\$2.5 million); (ii) the rehabilitation of the main raw water pumping stations feeding Manta's distribution system (*El Ceibal*, *Caza Lagarto* and *El Oro* pumping stations, totaling US\$5.9 million); (iii) critical repairs and isolation of the water distribution system in "ground zero" (US\$0.35 million); and (iv) studies and technical assistance to EPAM to recuperate normal operations (US\$0.46 million). Activities (i), (iii) and (iv) have been finalized. *Caza Lagarto* and *El Oro* are already completed and progress in *El Ceibal* progress stands at 78 percent. Two pumps as well as the electrical works and foundations have been installed. However, have yet to be tested given that EPAM is in the process of repairing some damages in the conduction lines, which may take two to three additional months. Given that the testing period is three months, pumps 3 and 4 would need to extend the commissioning period until March.

D. Rationale for extending closing date.

12. The Borrower's request to extend the closing is based on the following factors that likely impact the PDO and Project ratings.

- (a) ***Finalizing the rehabilitation of the pumping station is critical to the functioning of Manta's wastewater collection system.*** The existing *Umiña* pumping station is operating at overcapacity, resulting in raw wastewater being discharged into Manta's coastline. As the Project's sewerage rehabilitation works progress, the wastewater that the station receives will increase and exacerbate this situation. Thus, the rehabilitation and completion of this pumping station is crucial to rectify the adverse environmental contamination that is currently occurring. The Borrower estimates that the works will be completed in mid- February 2020. The installation, testing and commissioning of the pumping station, would therefore, take place after the current



Project closing date. Such a lapse would undermine the Bank's ability to not only adequately supervise the installation and functioning of the station, but also measure attainment of associated indicators. In addition, allowing the Project to close without assuring proper installation and functioning of these pumps could expose the Bank to significant reputational risk.

- (b) **Ensuring Project compliance with OP 4.12.** It is unlikely that the Project will be in compliance with OP 4.12 by the current December 31, 2019 closing date, given that the new municipal administration has only recently begun to implement the compensation process. Given the amount of time needed to make payments and properly document the compensation of landowners in *Via Barbasquillo*, there is a substantial risk that the Borrower would be out of compliance with OP 4.12, as well as substantial reputational risk to the Bank, if the Project were to close on the current closing date.
- (c) **Concluding the rehabilitation of the main raw water pumping stations feeding Manta's water treatment plants (WTP), due to damages in the conduction lines from those to the distribution system, which is in turn delaying the testing of the pumps.** Proper functioning of the system depends on the repowering of these three critical water pumping stations. *Caza Lagarto* and *El Oro* have already been completed while *El Ceibal* is 78 percent complete. Two pumps as well as the electrical works and foundations have been installed. However, these have yet to be tested. Due to the torrential rains that occurred in March 2019, the *El Ceibal* conduction line ruptured which required that EPAM repair the damages and resulted in delays that have prevented testing of the pumps. The *El Oro* and *Caza Lagarto* conduction lines were also damaged recently due to technical testing carried out by EPAM as part of their regular maintenance, which caused ruptures. EPAM estimates that repairing these damages could take two to three additional months. Given that the testing period of the new pumps is three months, the commissioning period would take place after the current closing date. This timeline would undermine the Bank's ability to adequately supervise the installation and functioning of the pumping stations, which could also expose the Bank to reputational risks in the event of improper functioning.
- (d) **Completing works underway in Component 1 (water supply and sewerage networks).** A number of factors have contributed to slow progress of the implementation of the contract for Component 1. Among these factors are: (i) torrential rains and flooding during March; (ii) modifications of the designs resulting from unforeseen findings during excavations in the subsoil; (iii) delays in obtaining permissions for easements; (iv) delays in processing the import of key equipment to test and commission the system; and (v) payment lags associated with administrative challenges in processing of addenda. In order to reverse this situation, the PIU has reached an agreement with the contractor to speed up work progress, prioritizing the completion of open fronts, expecting their culmination by end March. To guarantee successful completion of activities, the PIU has: (i) prepared a detailed action plan with a new schedule reprogramming activities; (ii) sought alternative providers to expedite the import of the equipment; (iii) included an external controller (there will be an exclusive bank account where payments arrive and whose funds can only be used for the projects). In addition, the Bank has intensified supervision (more frequent missions, technical visits or virtual follow-up meetings). The new closing date would allow enough time to complete remaining activities, thus safeguarding the achievement of PDO indicators.

13. **In summary, the negative anticipated impacts should the Project not be extended include:** (i) non-completion of the implementation of the C-RAP for the payment of compensations of the *Via Barbasquillo*; (ii) high reputational risk to the Bank in leaving key works necessary to ensure the proper functioning of drinking water and sewerage systems unfinished, amid high social unrest and high risk of accidents; and (iii) incomplete measurement of key project indicators, resulting in lack of evidence of attainment of the PDO. The team anticipates that failure to extend the



Project closing date would result in an *Unsatisfactory* project rating. The client is aware that no further extensions to the project will be considered.

E. Rationale for reallocating funds between disbursement categories

14. The reallocation of funds is needed to cover an amendment to the Hydosanitation contract to cover works related to road improvements and a slight increase in project management costs. Funds will be reallocated from Categories 1, 3 and 5 to Categories 2 and 4.

II. DESCRIPTION OF PROPOSED CHANGES

A. Change in the Project Closing Date

15. The proposed Second Order restructuring with a 6-month extension of the current closing date, would allow the Borrower to: (i) finalize the rehabilitation of the wastewater pumping station, which is key to the functioning of the Municipality of Manta’s wastewater collection system; (ii) ensure payment of compensations to affected land owners in Vía Barbasquillo; (iii) conclude the rehabilitation of the main raw water pumping stations feeding Manta’s WTP; and (iv) complete contracts underway under Component 1. The sum of the above would ensure completion of all remaining activities envisaged within the Project scope leading to achievement of the PDO and a Moderately Satisfactory (MS) rating upon Project close.

B. Reallocation between Disbursement Categories

16. This Restructuring Paper seeks to reallocate US\$2,089,00 from Category 1 and US\$588,000 from Category 3, to Category 2 (US\$2,519,000), Category 4 (US\$139,000) and Category 5 (US\$19,000), as shown in Table 1 below:

TABLE 1: REALLOCATION BETWEEN DISBURSEMENT CATEGORIES (in US\$)

Category	Current Allocation	Proposed Allocation	Disbursement % current	Disbursement % proposed
1. WSS investments	41,000,000	38,911,000	77%	81%
2. Road investments	45,200,000	47,719,000	93%	89%
3. Institutional Strengthening	3,686,000	3,098,000	74%	88%
4. Project Management	750,000	889,000	101%	86%
5. Emergency Response	6,700,000	6,719,000	83%	83%
6. Emergency: operational costs	2,500,000	2,500,000	100%	100%
7. Resettlement Expenditures	164,000	164,000	0%	0%
TOTAL	100,000,000	100,000,000	94%	94%

III. SUMMARY OF CHANGES

	Changed	Not Changed
Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
Implementation Schedule	✓	



Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-82890	Effective	30-Jun-2018	30-Jun-2019, 31-Dec-2019	29-Jun-2020	29-Oct-2020

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES



The World Bank

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	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
IBRD-82890-001 Currency: USD					
iLap Category Sequence No: 1		Current Expenditure Category: GO, CW, NCS, CS - Part 1			
	41,000,000.00	31,488,623.57	38,911,000.00	100.00	100.00
iLap Category Sequence No: 2		Current Expenditure Category: GO, CW, NCS, CS - Part 2			
	45,200,000.00	42,233,841.71	47,719,000.00	100.00	100.00
iLap Category Sequence No: 3		Current Expenditure Category: GO, CW, NCS, CS, TR - Part 3			
	3,686,000.00	2,731,904.60	3,098,000.00	100.00	100.00
iLap Category Sequence No: 4		Current Expenditure Category: GO, CS, NCS, CW, TR - Part 4			
	750,000.00	760,452.28	889,000.00	100.00	100.00
iLap Category Sequence No: 5		Current Expenditure Category: GO, CS, NCS, CW - Part 5			
	6,700,000.00	5,562,192.97	6,719,000.00	100.00	100.00
iLap Category Sequence No: 6		Current Expenditure Category: Operating Costs - Part 5			
	2,500,000.00	2,499,939.99	2,500,000.00	80.00	80.00
iLap Category Sequence No: 7		Current Expenditure Category: Resettlement Expenditures- Part 4			
	164,000.00	0.00	164,000.00	100.00	100.00
Total	100,000,000.00	85,276,955.12	100,000,000.00		