



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
GUIYANG RURAL ROADS PROJECT
APPROVED ON MARCH 6, 2014
TO
GUIYANG MUNICIPAL GOVERNMENT

TRANSPORT

EAST ASIA AND PACIFIC

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ABBREVIATIONS AND ACRONYMS

GRRP	Guiyang Rural Road Project
IBRD	International Bank of Reconstruction and Development
PDO	Project Development Objective
PRC	People's Republic of China
RMB	Renminbi (Chinese currency)
RRMIS	Rural Roads Management Information System
US\$	United States Dollar

Exchange rate

US\$ 1 = RMB 6.12

Fiscal Year

January 1 – December 31



Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

BASIC DATA

Product Information

Project ID P129401	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 06-Mar-2014	Current Closing Date 30-Jun-2019

Organizations

Borrower Guiyang Municipal Government	Responsible Agency Guiyang Municipal Government Project Leading Group
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Project Development Objective (PDO)

Original PDO

The development objective of the Project is to provide improved transport accessibility in selected areas of Guiyang in a sustainable manner.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-83370	06-Mar-2014	04-Jun-2014	19-Aug-2014	30-Jun-2019	150.00	73.19	76.81

Policy Waiver(s)

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

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

Project Status: The US\$250 million Guiyang Rural Road Project (GRRP), which consists of a US\$150 million IBRD Loan and US\$100 million in counterpart funds, is upgrading and rehabilitating county and township roads in Guiyang, Guizhou Province. To date, more than 200 km of roads have been upgraded and/or rehabilitated, which has improved access and connectivity for 245,000 road users in project areas.

Component A: Upgrading/Improving County and Township Roads (50.25% IBRD-financed and 49.75% PRC-financed). Improvements under this component consist of three batches of roads:

- *Batch 1* roads were completed in 2017 at a total cost of RMB 364.85 million (about US\$59.62 million).
- *Batch 2* consists of a single 18.17km road that will be upgraded from a Class IV road to a Class II road at a total cost of RMB 426.50 million (around US\$69.69 million). Civil works commenced in February 2017 and include the construction of a new bridge. Physical progress currently stands at nearly 60% and based on current progress, the road should be completed in early-2020.
- All twelve contracts associated with *Batch 3* roads were procured in January 2018 and signed in March 2018. As of April 2019, the physical progress of Batch 3 stood at 41 percent with completion estimated by mid-2020.

Works are underway in multiple locations, and overall the collective physical progress of the three batches of roads stands at around 65%. Works cannot be completed within GRRP's current closing date of June 30, 2019.

Implementation of the second batch of roads was slowed by efforts to minimize the cost and disruption in terms of land acquisition and resettlement, which included altering the original alignments of some road sections to lessen impacts.

In mid-2018, road works on four contracts slowed or were suspended due to variations in works and an inability by the Implementing Agency and the contractors to reach agreeable solutions. However, negotiations on three of the contracts were successfully concluded and works fully restarted in December 2018. The fourth contract remains bogged down and will be terminated and retendered as the delays encountered mean that the works cannot be completed even with an 18-month extension of the closing date. As a result, the Implementing Agency is prepared to finance the remainder of works associated with this contract.

Component B: Rehabilitation of County and Township Roads (65.43% IBRD-financed and 34.57% PRC-financed). Under this component, substantial improvements to safety and upgrades to road drainage systems have been achieved on multiple roads throughout several counties and districts. The construction of the initial batch of roads was delayed for several months because three high priority highway and railway projects took precedence over project roads.¹ The overall physical progress of road works stands at 60 percent.

¹ The road and rail projects that took precedent were: (i) Yongwen-Wenquan in Kaiyang County; (ii) Tiantai-Xinglong in Xifeng County; and (iii) Weicheng-Maige in Qingzhen City.



Component C: Rural Road Maintenance Pilot (100% IBRD-financed). Technical support on the design of a maintenance pilot program was completed in April 2018. Several recommendations to enhance rural road maintenance involving innovative approaches to engage the private sector in monitoring road conditions, increase financing for rural road maintenance, and control overloading were recommended. A core part of the pilot maintenance program was to enhance the Transport Bureau's rural roads management information system (RRMIS), which had been planned for rollout in late-2018. However, several shortcomings in terms of basic functionality were identified with the current RRMIS, including: (a) it does not support logging-in from external locations, which prevents county and district governments from submitting data through the system; (b) staff from the Transport Bureau are not able to enter new data without first sending it to the developer in Beijing as the system does not support importing data from its current database; (c) the system frequently crashes, requiring support from the developer; and (d) the modeling functions for prioritizing works were not fully completed. As a result, it is not possible to enhance the current RRMIS system or to devise a new RRMIS that could be tested and piloted, even with an 18-month extension of the current closing date, and the original concept will be dropped. Instead, Guiyang's municipal information system will incorporate some key recommendations that were identified as part of this initiative to monitor road maintenance, including using independent monitors to gather data on road conditions and communicate it to the authorities, which will reduce the cost of data collection, simplify IT administration, and increase transparency.

Component D: Technical Assistance (100% IBRD-financed). This component supports the implementation of technical assistance programs that contribute to the longer-term sustainability of the rural road program, primarily through: (i) the development of a rural road network plan; and (ii) training and study tours. Due to local regulations restricting the sharing of GIS mapping with third parties, which was not known at the time of project preparation, it was not possible to ensure a competitive procurement process to develop a rural road network plan. Counterparts felt that this would jeopardize both the quality and cost and asked that the funds be reallocated to Disbursement Category 1(c) where they would be more effectively spent to rehabilitate additional rural roads.

Although the network planning initiative was not completed, several training activities and study tours have been conducted since project effectiveness. Many of the events, including those that have focused on road network planning and engineering, have been well attended and yielded some modest alternative approaches in planning and developing rural roads. In addition, several training events have focused on World Bank safeguards (environment and social) and fiduciary (procurement and financial management) requirements, processes and procedures. This has resulted in greater counterpart capacity to manage GRRP effectively and in accordance with World Bank requirements. However, due to the Reimbursement Standards for Study and Training published by Provincial Financial Department, only US\$190,000 out of the original US\$400,000 are expected to be utilized. Therefore, US\$210,000 would be reduced and reallocated to Disbursement Category 1(c).

Compliance with safeguards requirements as described in the Environmental Management Plan, Resettlement Policy Framework, and Resettlement Action Plan has been satisfactory, and to-date there have been no negative impacts in relation to works financed under GRRP.



There are no outstanding or qualified audits for GRRP, and the project is in compliance with Bank procurement and financial management policies, and all legal covenants.

Reallocation of funds among disbursement categories and increasing the portion of Bank-financing will not alter project risk ratings, trigger new safeguards requirements, or change the safeguards category.

Rationale for Restructuring: The precedence given to the three high priority highway and railway projects over project roads had two significant impacts on GRRP in that it: (i) delayed implementation of Batch 1 roads by nearly two years; and (ii) substantially increased costs as heavy vehicles working on the priority road and rail projects were allowed to use Batch 1 roads and causing significant damage.

Other reasons for the early delays in implementation include the need to acquire 460 mu of land (equivalent to 30.68 hectares) to improve an 18km one Class IV road to a Class II road that passes through several villages and took considerable effort to optimize the road alignment and design to reduce resettlement and conclude the land acquisition and compensation process. Similar efforts were made to minimize land acquisition and disruption of commercial activities on other road improvement projects, which required additional time. Some Batch 3 roads were delayed due to insufficient counterpart funds. The shortfall in counterpart funds was partly the result of the national government's request (at the time) that local authorities reduce spending to control debt levels, and partly due to budget cycles and when funds become available. To make up for lost time, the Implementing Agency indicated its willingness to push contractors to work three, eight-hour shifts to meet GRRP's current closing date, but this raises concerns about the quality of construction and the safety of workers. Given these delays, and the fact it would not be possible to complete all the project interventions and disburse the remaining balance of about US\$76.81 million prior to the current closing date of June 30, 2019, an extension of 18 months from the current closing date has been requested.

As part of the restructure, several aspects of GRRP involving sub-components, reallocation of proceeds among disbursement categories, and revisions to some PDO target indicators and intermediate results indicators to be more realistic, will be carried out to better meet current stakeholder needs and to ensure that the PDO can be fully achieved. More details can be found in Section II.

Given the persistent delays in physical works and counterpart funds, the ratings for *Progress towards achievement of the PDO* and *Overall Implementation Progress (IP)* were downgraded to *Moderately Unsatisfactory* in June 2018. During the October 2018 mission, a time-bound plan of action containing key actions to turn around GRRP's performance was agreed and by March 2019, those actions had largely been met. All outstanding counterpart funds have been transferred and are available, and the previous issues with three of the four contractors have been resolved and works on those roads recommenced in December 2018. However, the PDO and IP ratings will remain as *Moderately Unsatisfactory* until implementation and disbursements have improved. These hurdles have long served as a drag on implementation and need to be addressed to enable project execution to improve.

The sustainability of rural roads that were improved under GRRP will be enhanced with additional time as nearly twice the number of km of roads (from 125km to 240km) can be included in the pilot program to enhance Guiyang's municipal information system. Several actions to improve the municipal system were recommended as part of a GRRP-financed rural



road maintenance study, many of which are being tested through the pilot program. The recommendations have already reduced costs and increased transparency. Including additional roads in the pilot program will provide a more vigorous assessment of the effectiveness of the recommendations, which, if successful, are expected to be rolled out to other rural roads in the province.

On May 20, 2019, the Borrower (Ministry of Finance) submitted a formal request to the World Bank asking that GRRP be restructured to accommodate several changes, including an extension of the Loan Agreement by 18 months.

Finally, counterparts have provided assurances that GRRP can be fully implemented within the new closing date.

II. DESCRIPTION OF PROPOSED CHANGES

Results Framework. The project has four project development indicators and three intermediate results indicators. As part of the mid-term review mission, it was discovered that PDO Indicator 1 measuring *the number of people with access to an all-season road* had been misstated due to a translation error in the Project Appraisal Document's results indicator methodology section. Currently, the figures only consider those beneficiaries that benefit from upgraded roads and do not consider beneficiaries of roads that are rehabilitated. As a result, the end target for people with access to an all-season road will increase from 126,874 to 778,027.

PDO Indicator 3 measuring travel time savings on rehabilitated roads exceeded its end target in 2017 but decreased in years 2017 and 2018 because traffic volumes increased as drivers chose to divert to the improved roads.

PDO Indicator 4 measuring the road length impacted by the maintenance pilot activity will increase from 125km to 240km because a maintenance center that had been planned for construction will no longer be established, and road maintenance equipment will not be acquired. Instead, the recommended maintenance pilot will monitor the condition of more roads using the grid system.

Intermediate Results Indicator 1 measuring the km of roads rehabilitated will decrease due to substantial increases in the cost of road works. Heavy vehicles working on other priority road and rail projects during the first two years of GRRP's implementation caused significant damage to Batch 1 roads. As a result, 67.5km of roads had to be reconstructed, rather than rehabilitated, which is significantly costlier to do. In addition, there have been numerous variations to works contracts over the last five years due to differences in the design and actual conditions of the roads, and this had major impacts on road costs. For Batch 2 and 3 roads, some counties wanted to modify road alignments through their jurisdictions to provide better connections and accessibility for villagers. In addition, tighter environment management policies increased the costs for materials, including aggregate, cement and steel. To a lesser extent, the cost of land acquisition also contributed to higher costs.

Because the rural road maintenance pilot will not be fully implemented, an alternative indicator to measure sustainability is needed. For this purpose, Intermediate Results Indicator 2 will be replaced with the *percent of feedback from independent monitors that is addressed*. This is defined as the percentage of responses to requests for



routine maintenance improvements from independent monitors using the grid monitoring system that are addressed within ten business days.

Components and Costs. The following changes will be made to the project components.

Component Name	Current Cost (US\$)	Action	Proposed Cost (US\$)
A: Upgrading/Improving County and Township Roads	147,355,000	Change	167,760,202
B: Rehabilitation of County and Township Roads	77,230,000	Change	118,502,998
C: Rural Road Maintenance Pilot	12,000,000	Change	900,000
D: Technical Assistance	1,000,000	Change	290,000
Total Project Costs:	237,585,000		287,453,200
Interest during Construction:	12,000,000	Change	9,000,000
Front-End Fee:	375,000	No Change	375,000
Total Financing:	250,000,000		296,828,200

The proposed amount *after the changes* reflects an increase in counterpart funds equivalent to US\$46,828,200.

These additional funds are needed because of the need to reconstruct, rather than rehabilitate 67.5km of project roads. During construction of the high priority projects, heavy vehicles were permitted to use several project roads to transport equipment and materials and this caused substantial damage to project roads. As a result, those project roads had to be reconstructed, which included works on the sub-base structure. In turn, this necessitated additional design work, all of which increased costs and reduced the overall amount of funding available for road works. The other reasons described in the paragraph regarding Intermediate Results Indicator 1 also contributed to higher road costs.

The sub-activity to enhance the existing rural roads management information system (RRMIS) and pilot it under through a program of works (Component C) will be dropped and the balance of US\$11.1 million reallocated to Disbursement Categories 1(c). However, a key recommendation from the assessment for a new RRMIS was to use independent monitors to gather data on road conditions and communicate it to the authorities, and this has been taken on board.

The rural road network planning activity under Component D will be dropped and the US\$500,000 reallocated to Disbursement Category 1(c). A key activity under this component, the sharing of the rural road network GIS map with third parties, is restricted by local regulations so a competitive procurement process, which, counterparts felt, would jeopardize both the quality and cost of the output.

Not all funds allocated to training and study tours will be utilized and US\$210,000 will be allocated to Disbursement Category 1(c).

Loan Closing Date. A couple of factors have contributed to the need to extend the closing date. The precedence given to high priority highway and railway projects early-on in implementation, and additional efforts to minimize land acquisition and disruption of commercial activities contributed to delays. Although efforts can be made to accelerate construction, there are concerns about the quality of works and worker safety if this is done. Other reasons for delay



include the lack of counterpart funds, and the adoption of a new management structure for managing GRRP, which took effect in September 2018. The new management and reporting structure took time to solidify, and this slowed implementation for several months.

Counterpart funds to carry out all remaining works under GRRP are now available and the new management structure is in place, but to ensure that ongoing and any remaining road works are carried out in a safe manner and works completed to high quality, additional time is needed to complete works. As such, the current closing date of June 30, 2019 will be extended by 18-months, or until December 31, 2020. This would be the first extension of the project's (IBRD Loan 8337-CN) closing date.

Reallocation between Disbursement Categories. The following table depicts reallocations between disbursement categories and changes in the percentages of Bank-financing:

Disbursement Category	Description	Current Allocation	Proposed Allocation	Financing % (Current)	Financing % (Proposed)
1(a)	Works under Part A.1 of the Project	30,000,000	30,000,000	68.6%	100.0%
1(b)	Works under Part A.2 of the Project	44,050,000	34,458,500	90.0%	100.0%
1(c)	Works under Part B of the Project	50,535,000	74,976,500	89.3%	100.0%
2	Goods, non-consulting services, consultants' services, training & workshops, and IOCs	13,000,000	1,190,000	100.0%	100.0%
3	Front-end Fee	375,000	375,000	Amount payable pursuant to Section 2.03 of this Agreement	Amount payable pursuant to Section 2.03 of this Agreement
4	Accrued interest on the Loan	12,040,000	9,000,000	Amount payable pursuant to Section 2.04 of this Agreement	Amount payable pursuant to Section 2.04 of this Agreement
5	Interest rate cap or collar premium	0	0	Amount payable pursuant to Section 2.07(c) of this Agreement	Amount payable pursuant to Section 2.07(c) of this Agreement

Reallocations. A total of US\$24.4415 million will be reallocated as follows: (i) US\$9.5915 million from Disbursement Category 1(b) to Disbursement Category 1(c); (ii) US\$11.81 million from Disbursement Category 2 to Disbursement Category 1(c); and (iii) US\$3.04 million from Disbursement Category 4 to Disbursement Category 1(c).



Percentage of Bank-Financing. To fully utilize the World Bank Loan, the percentage of Bank-financing will change for the following Disbursement Categories:

- Disbursement Category 1(a) will be increased from 68.6 percent to 100 percent.
- Disbursement Category Part 1(b) will be increased from 90.0 percent to 100 percent.
- Disbursement Category 1(c) will be increased from 89.3 percent to 100 percent.

Disbursement Estimates. The estimated annual disbursements are modified as follows:

Year	Original Cumulative Disbursements (US\$ mil.)	Actual Cumulative Disbursements (US\$ mil.)	Proposed Cumulative Disbursements (US\$ mil.)
2014	0.00	5.00	5.00
2015	20.00	19.44	19.44
2016	45.00	27.19	27.19
2017	80.00	45.18	45.18
2018	115.00	75.18	75.18
2019	145.00		110.00
2020	150.00		150.00

Implementation Schedule. The implementation schedule will be revised to reflect the 18-month extension of GRRP's closing date.

I. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓



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)

COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Upgrading/Improving County and Township Roads	147.36	Revised	Upgrading/Improving County and Township Roads	167.76
Rehabilitation of County and Township Roads	77.23	Revised	Rehabilitation of County and Township Roads	118.50
Rural Road Maintenance Pilot	12.00	Revised	Rural Road Maintenance Pilot	0.90
Technical Assistance	1.00	Revised	Technical Assistance	0.29
TOTAL	237.59			287.45



LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-83370	Effective	30-Jun-2019		31-Dec-2020	30-Apr-2021

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

	Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
				Current	Proposed
IBRD-83370-001 Currency: USD					
iLap Category Sequence No: 1-A		Current Expenditure Category: CWs under Pt.A.1			
	30,000,000.00	8,643,440.96	30,000,000.00	68.60	100
iLap Category Sequence No: 1-B		Current Expenditure Category: CWs under Pt.A.2			
	44,050,000.00	7,120,685.27	34,458,500.00	90.00	100
iLap Category Sequence No: 1-C		Current Expenditure Category: CWs under Pt.B			
	50,535,000.00	44,888,482.62	74,976,500.00	89.30	100
iLap Category Sequence No: 2		Current Expenditure Category: GDs/non-CSs/CSs/TRN/WKs/IOC			
	13,000,000.00	470,241.75	1,190,000.00	100.00	100.00
iLap Category Sequence No: 4		Current Expenditure Category: interest			
	12,040,000.00	2,628,844.80	9,000,000.00		
Total	149,625,000.00	63,751,695.40	149,625,000.00		

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates



Yes

Year	Current	Proposed
2014	0.00	5,000,000.00
2015	20,000,000.00	14,443,874.14
2016	25,000,000.00	7,747,560.13
2017	35,000,000.00	17,990,852.47
2018	35,000,000.00	30,004,129.31
2019	35,000,000.00	34,816,583.95
2020	0.00	40,000,000.00



Results framework

COUNTRY: China

Project Development Objectives(s)

The development objective of the Project is to provide improved transport accessibility in selected areas of Guiyang in a sustainable manner.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	End Target
Improved transport accessibility in selected areas of Guiyang, in a sustainable manner.			
Number of People with Access to an All-Season Road (Number)		0.00	778,027.00
Action: This indicator has been Revised	Rationale: <i>As part of the mid-term review mission, it was discovered that PDO Indicator 1 measuring the number of people with access to an all-season road had been misstated due to a translation error in the Project Appraisal Document's results indicator methodology section. Currently, the figures only consider those beneficiaries that benefit from upgraded roads and do not consider beneficiaries of roads that are rehabilitated. As a result, the end target for people with access to an all-season road will increase from 126,874 to 778,027.</i>		
Travel time savings on upgraded / improved roads (Percentage)		0.00	40.00
Travel time savings on rehabilitated roads (Percentage)		0.00	30.00
Action: This indicator has been Revised			
Road length impacted by maintenance pilot activity (Kilometers)		0.00	240.00
Action: This indicator has been Revised	Rationale: <i>With additional time, more km of roads can be included in the pilot road maintenance program. End target will increase from 125km to 240km.</i>		



Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	End Target
Upgrading/Improving/Rehabilitating County and Township Roads			
Roads rehabilitated (CRI, Kilometers)		0.00	520.00
<i>Action: This indicator has been Revised</i>	<p>Rationale: <i>Intermediate Results Indicator 1 measuring the km of roads rehabilitated will decrease due to substantial increases in the cost of road works. Heavy vehicles working on other priority road and rail projects during the first two years of GRRP's implementation caused significant damage to Batch 1 roads. As a result, 67.5km of roads had to be reconstructed, rather than rehabilitated, which is significantly costlier to do. In addition, there have been numerous variations to works contracts over the last five years due to differences in the design and actual conditions of the roads, and this had major impacts on road costs. For Batch 2 and 3 roads, some counties wanted to modify road alignments through their jurisdictions to provide better connections and accessibility for villagers. In addition, tighter environment management policies increased the costs for materials, including aggregate, cement and steel. To a lesser extent, the cost of land acquisition also contributed to higher costs.</i></p>		
Rural Road Maintenance Pilot (Action: This Component has been Revised)			
Percent of feedback from independent monitors that is addressed. (Percentage)		0.00	80.00
<i>Action: This indicator has been Revised</i>	<p>Rationale: <i>Because the rural road maintenance pilot will not be fully implemented, an alternative indicator to measure sustainability is needed. For this purpose, Intermediate Results Indicator 2 will be replaced with the percent of feedback from independent monitors that is addressed. This is defined as the percentage of responses to requests for routine maintenance improvements from independent monitors using the grid monitoring system that are addressed within ten business days.</i></p>		
Technical Assistance			



Indicator Name	DLI	Baseline	End Target
Number of trainees who attended training and study tours (Number)		0.00	125.00
Action: This indicator has been Revised	Rationale: Additional trainees will be able to attend more training programs with an 18-month extension of the closing date.		



The World Bank
(P129401)
