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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF
BR MUNICIPAL APL: TERESINA ENHANCING MUNICIPAL GOVERNANCE
AND QUALITY OF LIFE PROJECT

LOAN 7523-BR

Approved on March 27, 2008

TO THE

MUNICIPALITY OF TERESINA

July 15, 2013

LCSWS
SUSTAINABLE DEVELOPMENT DEPARTMENT
COUNTRY MANAGEMENT UNIT LCC5C
LATIN AMERICAN AND THE CARIBBEAN UNIT

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ABBREVIATIONS AND ACRONYMS

| | |
|-------|---|
| BRL | Brazilian Real |
| IPMU | Minimum Standard of Urbanization Index |
| LED | Local Economic Development |
| MTR | Mid-Term Review |
| PAC | Growth Acceleration Program (<i>Programa de Aceleração de Crescimento</i>) |
| PEFA | Public Financial management Performance Measurement Framework |
| PLN | Programa Lagoas do Norte |
| PMT | Municipality of Teresina (<i>Prefeitura Municipal de Teresina</i>) |
| PMU | Project Management Unit (<i>UGP</i>) |
| SEMEC | Municipal Secretary of Education and Culture (<i>Secretaria Municipal de Educação e Cultura</i>) |
| WSS | Water Supply and Sanitation |

| | |
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BRAZIL
BR MUNICIPAL APL: TERESINA ENHANCING MUNICIPAL GOVERNANCE
AND QUALITY OF LIFE PROJECT

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PROJECT NAME
RESTRUCTURING PAPER

A. SUMMARY

1. This Restructuring Paper responds to the request from the Municipality of Teresina to amend the Loan Agreement for the Teresina Enhancing Municipal Governance and Quality of Life Project (Loan 7523-BR) to include the following changes:

- (i) Extension of the loan's closing date from July 31, 2013 until December 31, 2014 to enable the completion of ongoing contracts.
- (ii) Modifications to the project's scope and activities, which will consequently impact the project indicators. These changes do not alter the main objectives or the structure of the components defined previously in the Loan Agreement.

2. The Project's development objectives are to: (i) modernize and improve the management capacity of Teresina Municipal Government in the financial, urban environmental, service-delivery, and economic development fields, and; (ii) improve the quality of life of the low-income population of the *Lagoas do Norte* region of the city. The Project has three components, namely: (i) municipal management modernization, city development and project management; (ii) integrated urban-environmental improvement in *Lagoas do Norte*; (iii) social and economic development in *Lagoas do Norte*.

B. PROJECT STATUS

3. The US\$31.13 million loan was approved on March 27, 2008. The Loan was declared effective on September 3, 2008, with an original estimate of US\$13.34 million in counterpart financing. Given the 14-month time lapse between project appraisal and negotiations, the municipality was able to obtain an additional US\$10 million from the Federal Government (*Programa de Aceleração do Crescimento – PAC*) to start the implementation of the activities that were at an advanced stage of preparation.

4. Project implementation started well, but suffered delays of over one year related to the difficulties encountered in obtaining satisfactory bids for the detailed engineering designs and main construction works package of the remaining activities to be financed under the project, due to a heated construction market. The designs and works were only contracted after the fifth time the request for proposals and bidding documents were launched.

5. After four and a half years of implementation, disbursements reached 72 percent (US\$22.5 million) and 85 percent of the total funds are committed. The project has been rated satisfactory since approval. The modernization of the municipality's financial systems resulted on a 33 percent increase in revenue collections, helping maintain a fiscal equilibrium. The municipality prepared a drainage master plan and a municipal plan for water supply and sanitation and is now compliant with the federal WSS law. Implementation of integrated works (sanitation, urban requalification, drainage and resettlement) in the Area 1 of *Lagoas do Norte* region is very advanced: the *Lagoas do Norte* Park has been inaugurated in this area and is being widely used by the community, remaining works interventions on sanitation and transport are to be finalized by December 2013. The resettlement work conducted under the project is considered

best practice by the Bank, and the project was showcased as a best practice example of green and inclusive growth by the Brazilian Government at the Rio +20 conference.

6. However, even with the additional funds secured from the Federal Government, the overall project scope had to be reduced as a result of higher than anticipated costs, which is the main reason for the Borrower's request to restructure the project. This restructuring will allow the better alignment of the activities envisioned within the scope of the Project to the amount of available funding. This misalignment was caused by three factors:

- a. the wide variation of the exchange rate between the Brazilian Real (BRL) against the Dollar during project implementation going from BRL 2.53 when the project was approved to an average disbursement rate of about BRL 2.03, representing a 20 percent reduction in BRL funds.
- b. the estimated cost of Project original activities, specifically works, proved to be lower than the actual costs after the detailed engineering designs were prepared; and
- c. a significant increase (39 percent for the period) of the construction costs in Brazil, due to specific market heating circumstances caused by economic growth, including public and private investments in infrastructure, housing and other civil construction activities, as well as the burden of federal infrastructure investments in the last couple of years, specially through the Federal Government's PAC.

C. PROPOSED CHANGES

7. **Extension of closing date.** The closing date for the Project will be extended from July 31, 2013 until December 31, 2014, in order to allow for the implementation of remaining project activities that were affected by the delays shortly after effectiveness. An action plan for Project implementation during these 18-months has been agreed upon with the government and is reflected in the latest procurement plan that has been approved for the Project.

8. **Project components.** For the reasons stated above, there is a need for reduction in project activities and scope, respectively impacting Component 1 (Municipal Management Modernization, City Development and Project Management, for which portion an amendment to the Loan Agreement is required) and Component 2 (Integrated Urban-Environmental Improvement in *Lagoas do Norte*, for which portion there is no need to amend the Loan Agreement). Changes to the scope of Component 2 have been discussed and agreed upon with the Borrower in the last two years of implementation based on the availability of funds. These have been reflected in the project's Mid-Term Review aide memoire and formed part of the Municipality's request to the Federal Government.

- a. *Component 1: Municipal Management Modernization, City Development, and Project Management.* Activities related to (i) the modernization of the Borrower's education management, including the elaboration and implementation of a new education policy for the municipality, as well as (ii) the development and implementation of a local economic development strategy for the Municipality, are to be removed from the project activities to be financed by the Loan.

In addition, the following activities related to the modernization of the Municipality's urban and environmental management are to be removed from the project activities as well: (i) the preparation of a solid waste management master plan; (ii) the development of

consolidated strategies for enforcing existing legal and administrative mechanisms required to regularize existing slums and other irregular settlements, and for facilitating access to land; (iii) strengthening the Municipality's environmental management capacity, including the introduction of an environmental licensing and enforcement control system

These activities are being removed mainly due to a shortage of resources, Teresina's Municipal Government still consider them important and priority activities and is seeking resources from other financiers to undertake a number of these activities. However, it is unlikely that these would be implemented within the project timeline, hence the need to remove them from the project's scope.

- b. *Component 2: Integrated Urban-Environmental Development.* During project design and preparation, the *Lagoas do Norte* region was sub-divided into four areas and the original project scope of the physical interventions planned under Component 2, as detailed in the appraisal document, was to undertake comprehensive, integrated interventions (drainage, sanitation, urban requalification and resettlement) in Areas 1 and 2, while in Area 3 priority would be given to the implementation of a wastewater system and the resettlement of families at risk, and interventions in Area 4 would focus on installation of macro-drainage and resettlement of families at risk.

As a result of the shortage in resources, the scope of physical interventions in the *Lagoas do Norte* region was reduced to: comprehensive, integrated interventions (drainage, sanitation, urban requalification and resettlement) in Area 1, partial drainage interventions in Area 2 (to ensure proper working of the interventions in Area 1), and macro-drainage interventions in Area 4 (which resolved a recurrent annual flooding in that area). Area 3 will not benefit from any intervention at this stage. Such changes in scope under these activities have been discussed with the Borrower and do not require an amendment to the Loan Agreement as the activities remain unchanged with the only difference being on which areas the activities will be carried out.

- c. *Component 3: Social and Economic Development:* There are no changes to this component.

9. **Project Results/Indicators.** The results framework originally prepared for the project is overly ambitious and does not necessarily encompass indicators that are directly related to the project's proposed interventions. As such, the Borrower proposes modifications to the results framework, which do not impact the achievement of the Project's Development Objectives. These revisions will contribute to a more simplified and realistic monitoring of the project's achievements and impacts, and some of the targets of indicators that remain are also being adjusted to reflect the new scope of the project components. Project Development Indicators are reduced from 15 to 4, while intermediate indicators are reduced from 29 to 13. Details of the proposed modifications can be found in Annex 1.

10. The proposed restructuring involves no other changes in terms of project objectives, institutional arrangements, disbursements arrangements or procurement. The Loan Agreement will be amended to reflect the changes proposed in this Restructuring Paper. The Project Development Objectives remain the same and continues to be achievable with the proposed changes. The project does not have overdue audits, and it is not subject to suspension of disbursements. The objectives of the audit continue to be achievable.

ANNEX 1: Results Framework and Monitoring

Project Development Objective (PDO):

The project's development objectives are to: (i) modernize and improve the management capacity of Teresina Municipal Government in the financial, urban environmental, service-delivery, and economic development fields, and; (ii) improve the quality of life of the low-income population of the *Lagoas do Norte* region of the city.

Revised Project Development Objective:

Not applicable

| 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 3 | YR 4 | YR 5/EoP ¹ | | | |
| PDO Level | | | | | | | | | | | |
| Municipal Management | | | | | | | | | | | |
| Improve the municipality's aggregate PEFA score. | <input type="checkbox"/> | R | ABCD scale | C+ (2005) | - | - | - | B | Final report | Consultant analysis/survey | PMU/PMT |
| Urban legislation updated on demand | <input type="checkbox"/> | D | Yes/No | Yes | | Yes | | Yes | Progress reports | | |
| Conclusion and dissemination of regional environmental strategic evaluation and environmental legislation updated. | <input type="checkbox"/> | D | Yes/No | No | | No | | Yes | Progress reports | PMT records/Project MIS | PMU/PMT |
| PMT compliance with new federal water supply and sanitation law, including: (i) Preparation of a municipal WSS plan. (ii) Creation and strengthening of a municipal WSS regulating body. (iii) Formalization of WSS service delivery contractual arrangement. | <input type="checkbox"/> | C | Yes/No | No | (i) yes (ii) yes (iii) no | (i) yes (ii) yes (iii) yes | | (i) yes (ii) yes (iii) yes | Progress reports, MTR and final report | Consultant analysis/survey and audit | PMU/PMT and WSS regulatory entity |
| Implementation of a new primary education policy | <input type="checkbox"/> | D | Yes/No | No | | New policy developed | | Effectiveness reviewed | Progress reports | Analysis, survey | PMU and Education Secretariat |

¹ EoP = End of Project

| 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 3 | YR 4 | YR 5/EoP ¹ | | | |
| Increase in municipal revenues as a result of the modernization activities implemented under the project | <input type="checkbox"/> | N | % | 0 | 0 | 33% | 34% | 35% | Every six months | SEMF | SEMF/PMU |
| Quality of Life in Lagoas do Norte | | | | | | | | | | | |
| Increase in PMT's standard urbanization indicator (IPMU – 'Índice de Padrão Mínimo de Urbanização'). | <input type="checkbox"/> | D | Low, Medium, High | Low to Medium | | IPMU expected (Areas 1+2) | | IPMU expected (all Areas) | | PMT records/ project MIS | PMU/PMT |
| Property values (hedonic pricing) in Área 1 of the Lagoas do Norte region increase | <input type="checkbox"/> | D | % | WTP survey (July 2005) | | +10% | | +30% | | Household price survey | PMU/PMT |
| Increase in the percentage of the population reporting improvements in/satisfaction with: (i) urban services (WSS, drainage, solid waste management, public lighting, local transport, etc.); (ii) social services (health, education, job and training programs); and (iii) quality of life of the local environment | <input type="checkbox"/> | D | Approval rating | TBD | | +60% in approval rating | | +70% in approval rating | MTR and final reports | Public opinion survey | PMU/PMT |
| Increase of coverage of <i>Bolsa Família</i> Program of eligible families from Lagoas do Norte Region. | <input type="checkbox"/> | D | % | 85% | | 90% | | 95% | Progress, MTR and final reports | | PMU/PMT |
| Increase coverage from Family Health Program. | <input type="checkbox"/> | D | % | 79% | | 84% | | 95% | Progress, MTR and final reports | | PMU/PMT |
| Increase the population with personal and work identification documents | <input type="checkbox"/> | D | % | 90% | | 95% | | 95% | Progress, MTR and final reports | | PMU/PMT |
| Increase access to income and work generation programs (Banco Popular, micro-credit operations in the north region of Teresina) | <input type="checkbox"/> | D | % increase | 0% | | | | +200% | Progress, MTR and final reports | | PMU/PMT |
| Number of people benefited with technical training | <input type="checkbox"/> | D | # | 0 | | | | >600 | Progress, MTR and final reports | | PMU/PMT |

| 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 3 | YR 4 | YR 5/EoP ¹ | | | |
| % of clay workers (<i>oleiros</i>) working informally reinserted in the formal work market | <input type="checkbox"/> | D | % | 0 | | | | 100% | Progress, MTR and final reports | PMU/PMT | |
| Number of new businesses started | <input type="checkbox"/> | D | # | 0 | | | | >100 | | | |
| % of 0-6 year-old children receiving pre-school education | <input type="checkbox"/> | D | % | | | | | 25% | | | |
| Number of families directly benefiting from the interventions in Area 1 | <input type="checkbox"/> | N | # | 0 | 0 | 10,000 | 26,000 | 26,000 | Annual | Progress Reports | PMU |
| INTERMEDIATE RESULTS | | | | | | | | | | | |
| Component One: Municipal Management Modernization, City Development and Project Management | | | | | | | | | | | |
| Improve the following PEFA indicators: ▪ Budget credibility (PI-2) ▪ Budget comprehensiveness and transparency (PIs-9 / 10) ▪ Policy-based budgeting (PI-12) ▪ Predictability/control in budget execution PIs-14/16/18/20/21 | <input type="checkbox"/> | D | ABCD scale | <ul style="list-style-type: none"> ▪ PI 2: C ▪ PI 9: D ▪ PI 10: C ▪ PI 12: D ▪ PI 14: D+ ▪ PI 16: D+ ▪ PI 18: D ▪ PI 20: C ▪ PI 21: D | | PI 2: B PI 9: C PI 10: B PI 12: C PI 14: C PI 16: C PI 18: C PI 20: B PI 21: C | | PI 2: B PI 9: C PI 10: B PI 12: C PI 14: C+ PI 16: C+ PI 18: C PI 20: B PI 21: C | Mid-Term | PMT Annual Report | PMU |
| Municipal urban master plan completed | <input type="checkbox"/> | D | Yes/No | No | | Yes | | Yes | Mid-Term | PMT Annual Report | PMU |
| Municipal drainage master plan completed | <input type="checkbox"/> | C | Yes/No | No | | Yes | | Yes | Mid-Term | PMT Annual Report | PMU |
| Municipal solid waste management master plan completed | <input type="checkbox"/> | D | Yes/No | No | | Yes | | Yes | Mid-Term | PMT Annual Report | PMU |
| Urban legislation updated on demand | <input type="checkbox"/> | D | Yes/No | No | | Yes | | Yes | | | |
| Decrease in time to obtain PMT environmental approvals | <input type="checkbox"/> | D | % time decrease | - | | 50% | | 70% | | SEMAE Annual Report | PMU |
| Financial and operational efficiency of new WSS services: i. Revenues > costs ii. >90% micro-metering iii. > 20-hours of service per day | <input type="checkbox"/> | D | Yes/No | i. No ii. No iii. No iv. No | i. Yes ii. Yes iii. No iv. No | i. Yes ii. Yes iii. Yes iv. Yes | i. Yes ii. Yes iii. Yes iv. Yes | i. Yes ii. Yes iii. Yes iv. Yes | Progress Reports | PMT Annual Report | PMU |

| 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 3 | YR 4 | YR 5/EoP ¹ | | | |
| iv. Water quality complying with Health Ministry Regulation 518 | | | | | | | | | | | |
| Implementation of new pre-school education policy | <input type="checkbox"/> | D | Yes/No | No | No | Yes | Yes | Yes | Annual | PMU Report | PMU |
| LED Strategy Elaborated | <input type="checkbox"/> | D | Yes/No | No | No | No | Yes | Yes | Annual | PMU Report | PMU |
| LED Strategy Implementation Initiated | <input type="checkbox"/> | D | Yes/No | No | No | No | Yes | Yes | Annual | PMU Report | PMU |
| PMU Unit in place and functioning (PMU staff nominated/contracted, MIS in place, M&E system in place, etc.) | <input type="checkbox"/> | C | Yes/No | No | Yes | Yes | Yes | Yes | Annual | PMU Report | PMU |
| PMU/municipal line entity project staff trained | <input type="checkbox"/> | D | Yes/No | No | Yes | Yes | Yes | Yes | Annual | PMU Report | PMU |
| Number of municipal department/agencies benefiting from capacity improvements financed by the Project | <input type="checkbox"/> | N | # | 0 | 0 | 2 (Transport, WSS Regulation) | 3 (Transport, WSS Regulation, Finance) | At least 4 (Transport, WSS Regulation, Finance, Planning) | Every six months | PMU Report | PMU |
| Following improvements to municipal management implemented: i. Management Information system for administrative, financial and human resource management ii. Internal control systems iii. Unified system for management of human resources iv. Electronic receipts system (to facilitate collecting of tax revenues) | <input type="checkbox"/> | N | Yes/No | No | i. Yes ii. No iii. No iv. Yes | i. Yes ii. Yes iii. Yes iv. Yes | i. Yes ii. Yes iii. Yes iv. Yes | i. Yes ii. Yes iii. Yes iv. Yes | Every six months | Progress Reports, MTR report | PMU |
| Component Two: Integrated Urban-Environmental Development in the Lagoas do Norte Region | | | | | | | | | | | |
| All families living in at risk areas in Area 1 resettled to new housing. | <input type="checkbox"/> | R | # | 0 | | | | 422 | | | |

| 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 3 | YR 4 | YR 5/EoP ¹ | | | |
| Number of families benefiting from improved housing | <input type="checkbox"/> | R | # | 0 | | | | 168 | | | |
| Increase in sewerage coverage in Area 1 | <input checked="" type="checkbox"/> | R | % | 9.5% | - | - | 10% | 50% | | | |
| Reduction in the incidence of water- and excreta-related disease transmission (episodes/year) | <input type="checkbox"/> | D | % | 501 (2005) | 60% | 70% | 80% | 95% | | | |
| Reduction in the pollution levels of the lakes in Area 1 (BOD ₅ and dissolved oxygen) | <input type="checkbox"/> | R | mg/l | BOD: 5.7 – 44.8 DO: 0.2 – 4.34 | - | - | - | BOD: 0.05 – 3.3 DO: 0.002 – 0.43 | | | |
| Reduction in travel time between the city center and the Lagoas do Norte region | <input type="checkbox"/> | D | # | TBD | TBD | TBD | TBD | TBD | | | |
| Annual reduction in the number of road accidents in the region. | <input type="checkbox"/> | D | % | 211 (2005) | | 40% | | 70% | | | |
| Improvement in water supply services: - Continuity - Pressure - Water Quality | <input type="checkbox"/> | D | | TBD | TBD | TBD | TBD | TBD | | | |
| Increase in green and leisure space in Area 1 (m ² /habitant) | <input type="checkbox"/> | R | m ² /habitant | 1.3 | - | - | - | 1.5 | | | |
| Component Three: Social and Economic Development in the Lagoas do Norte Region | | | | | | | | | | | |
| Increase in eligible families registered in income transfer projects (PSF and PT Renda) | <input type="checkbox"/> | D | % | PSF: 79% PT: 85% | | PSF: 84% PT: 90% | | PSF: 95% PT: 95% | | PMU Report | PMU |
| Increase in population with personal employment documentation | <input type="checkbox"/> | D | % | 90% | | 95% | | 95% | | | |
| Access to job/income creating project | <input type="checkbox"/> | D | % increase | 1,236 operations/year | 28% | 44% | 62% | 89% | | | |
| Working-age adults benefiting from work/skills training | <input type="checkbox"/> | D | # | 0 (2005) | 180 | 360 | 540 | 720 | | | |
| Clay workers (<i>oleiros</i>) reinserted in regular work market | <input type="checkbox"/> | C | % | 0 | - | - | 30% | 100% | | | |
| New small business set up | <input type="checkbox"/> | D | # | | | | | | | | |

| 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 3 | YR 4 | YR 5/EoP ¹ | | | |
| Children attending pre-school | <input type="checkbox"/> | D | % | 22% | 25% | | | 25% | | | |
| Increase in handicraft sales | <input type="checkbox"/> | D | % | | 20% | 30% | 40% | 50% | | | |
| Number of workshops on arts (drawing, capoeira, recycling, etc.) being provided to the local community by the rehabilitated Teatro do Boi. | <input type="checkbox"/> | N | # | 0 | - | - | 20 | 25 | Every six months | Progress reports | PMU |
| Number of socio-environmental activities implemented in the project's area of intervention | <input type="checkbox"/> | N | # | 0 | - | 4 | 10 | 18 | Every six months | Progress Reports | PMU |
| Recycling center for construction debris operational | <input type="checkbox"/> | N | Yes/No | No | - | - | - | Yes | Every six months | Progress Reports | PMU |