RESTRICTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF A
GLOBAL ENVIRONMENT FACILITY
SPECIAL CLIMATE CHANGE FUND GRANT
FOR THE
ADAPTATION TO THE IMPACT OF RAPID GLACIER RETREAT IN THE
TROPICAL ANDES PROJECT
(gef tf grant no. tf091712)
APPROVED BY THE BOARD ON JULY 11, 2008

IN THE AMOUNT OF
US$ 7.94 MILLION
(UNCHANGED)

TO THE

GENERAL SECRETARIAT OF THE ANDEAN COMMUNITY (SGCA) ACTING ON
BEHALF OF THE PLURINATIONAL STATE OF BOLIVIA, THE REPUBLIC OF
ECUADOR AND THE REPUBLIC OF PERU

March 28, 2012
ABBREVIATIONS AND ACRONYMS

EPMAPS  Metropolitan Public Water Supply and Sanitation Company of Quito (Empresa Pública Metropolitana de Agua Potable y Saneamiento)
EPSAS  Public and Social Water Supply and Sanitation Company of La Paz (Empresa Pública y Social de Agua y Saneamiento)
GEF  Global Environment Facility
MTR  Mid Term Review
PDO  Project Development Objective
PHRD  Policy and Human Resources Development
PIU  Project Implementation Unit
SGCA  General Secretariat of the Andean Community (Secretaría General de la Comunidad Andina)
TF  Trust Fund

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ANDEAN COUNTRIES
ADAPTATION TO THE IMPACT OF RAPID GLACIER RETREAT IN THE
TROPICAL ANDES

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A. SUMMARY

1. This Project Paper seeks the approval of the Country Director for the following changes to the Regional Adaptation to the Impact of Rapid Glacier Retreat in the Tropical Andes Project (P098248), GEF SCCF Grant No.TF091712, and for any accompanying amendments to the Project’s legal documents: (i) a one-year extension of the Project closing date; and (ii) modify the disbursement table to reflect the correct amounts and parts of the Project to be financed under Category 2. The current closing date (September 30, 2012) is preventing the issuing of No Objections from the Project team to procurement processes that are critical for implementation but that, given the duration of the activities, extend beyond the current closing date.

2. The Project Development Objective (PDO), which is to contribute to strengthening the resilience of local ecosystems and economies to the impacts of glacier retreat in the Tropical Andes, through the implementation of specific pilot adaptation activities that illustrate the costs and benefits of adaptation, as well as the scope of the Project, remain unchanged. After the Mid Term Review, conducted in October 2010, the Project was restructured, and changes to the scope of activities, intermediate indicators and creation of a new component to capture the regional dimension of the Project were introduced. Since this restructuring, the Project has increased its implementation pace despite significant staffing problems, now largely resolved. Several activities are expected to be completed ahead of the current closing date. However, the Project suffered important delays, and an extension is required to ensure that the PDO is fully achieved. This will also allow for extra time to monitor and extract relevant lessons, which is a cornerstone of the Project.

3. Each Beneficiary country has officially requested the Secretaría General de la Comunidad Andina (SGCA, implementing agency) to seek a one-year extension. The SGCA, through a letter dated March 15, 2012, officially requests the Bank to grant said extension. The Project team, on a mission conducted in November 2011, confirmed the relevance of the Project, observed on-the-ground progress, and believes that an extension is justified. The extension of the closing date would not require additional funds for Project management, since the Project Implementing Unit (PIU) has had an absence of several of its specialists, as explained below, which has created savings that are now available.

4. The SGCA has sent the Bank a letter dated March 20, 2012, to request correction of an error in their previous letter dated June 21, 2011, which lead to incorrectly reflecting the amounts and parts of the Project to be financed under Category 2.

B. PROJECT STATUS

5. The Project has made good progress since it was restructured in August 2011. Disbursements to date reach 31%, having increased 10% since said restructuring. The Project disbursed US$282,000 in 2009, US$422,000 in 2010, and US$1,382,000 in 2011.
The amount of resources committed to date are US$1,815,000. Therefore, when already disbursed funds plus currently committed funds are accounted for, the total percentage reaches 54%. Finally, to date there are additional US$1,331,000 which have entered the procurement phase at the SGCA, raising the total percentage to 71%.

6. On the ground, countries have made significant progress:

7. **Bolivia.** Progress is remarkable. On the pilot project related to increasing efficiency of water distribution of EPSAS, the La Paz and El Alto water company, key equipment and software have been purchased to increase the company’s ability to detect and repair losses, and to monitor and control their distribution efficiencies. A key consultancy is currently being developed for the design and implementation of a company-wide strategy to reduce unaccounted-for water. Another key consultancy to identify and pre-design alternative sources of water supply for El Alto has had some difficulties in attracting interested firms. A well-experienced firm has now been selected, and the contract is in the process of being awarded. The consultancy is expected to be completed in seven months, and thus it would extend beyond the current Project closure. This critical activity, ready to be contracted, thus requires the extension of the Project. The second pilot project will implement improved irrigation schemes in Batallas and Palca. CARE, a strategic partner of the Bank in this Project, has had a strong presence in the beneficiary communities, schemes have been designed in consultation with beneficiaries, and technical assistance is ongoing. The procurement of works to implement both systems is well advanced, although some difficulties in identifying interested contractors have been encountered. Works are estimated to last 6-8 months, and their adequate implementation is critical in the area.

8. **Ecuador.** There has been significant progress since the last supervision mission (November 2011). Regarding the first pilot project, activities to help increase climate resilience of water supply to Quito are underway, with a web-based monitoring and information system of water availability and climate change impacts nearly completed, and a vulnerability assessment of the Pita-Puengasí river basin already being executed. The team has recently contacted the Municipal District of Quito to complete the suite of activities within this pilot, and some small-scale activities are being developed. Some important pending activities include the purchase of hydro-meteorological monitoring stations, whose quantity, type and location have been carefully chosen by relevant national actors after performing a gap analysis of the existing network. Given the times for procuring the stations and the delivery schedules of providers, this activity would likely not be finished by current Project closure, and an extension is needed. Regarding the second pilot project, focusing on high-mountain ecosystems in the Antisana region, activities are more advanced: a consultancy to develop and implement a strategic sustainable tourism plan in the Papallacta area has started, and the final selection of a firm to design and implement a management plan for high paramo ecosystems and cattle is expected soon (estimated execution time 9 months). The procurement process for a small water supply scheme is also well advanced (estimated execution time 6 months). The design of these two activities was completed long ago, but there have been some delays in the preparation of adequate bidding documents and in the subsequent selection processes due to difficulties securing experienced firms. Thus, these two important activities will not be completed on time if the Project closing date is not extended.
9. **Peru.** Most of the key activities have been completed, including four irrigation schemes, the refurbishment of an irrigation canal, tree and grassland reforestation in the Huancayo area, and strengthening of local capacities to adapt to climate change impacts in the agriculture and water sectors in the Santa Teresa (Cusco) area. There have been some delays procuring all needed seedlings since the local market could not provide them all, and it may be necessary to wait for the next planting season. Should this be the case, this activity would benefit from an extension in Project closing date. Another delayed activity is the implementation of a monitoring system to evaluate climate change impacts in a high Andean paramo ecosystem. This is a very relevant activity for Project objectives, all arrangements are secured, the system is designed and it is only missing the final no objection of the Bank to the terms of reference, which cannot be given at this time because the estimated time for completion is 10 months and goes beyond the current closing date.

10. **Regional activities.** A regional component, key for Project relevance and success, was included in the August 2011 restructuring. It focuses on proper systematization and dissemination of experiences gained through the design and implementation of adaptation activities, as well as knowledge generation and sharing of the scientific processes supported by the Project on climate change scenario generation, satellite image treatment and use for glacier retreat estimates, and glacier monitoring stations. The component is also expected to develop scientific baselines and adaptation guidelines for mountain ecosystems. Several of these activities are being implemented through a contract with a Swiss consortium of top research institutions. Unfortunately, activities for dissemination, extraction of lessons and an increase in the regional profile of the Project are still delayed, partly because they are awaiting conclusion of pilots, partly due to the lack of a regional coordinator in the PIU, as later explained. A closing date extension is critical to achieve an appropriate implementation of this regional component.

### Project relevance and extension justification

11. The Project has already delivered many positive results, directly reflected in the results framework. In addition, it has indirectly yielded other very significant successes which are sometimes difficult to measure. It has been, and continues to be, an important catalyst in each of the participating countries to articulate a national-level dialogue on climate change adaptation. It is one of the first Projects of its kind to target the adaptation agenda in the Andean countries with on-the-ground pilots, and is providing support at scientific level, increasing monitoring capacity at the local/national level, and testing different approaches to adapt to climate change impacts. As such, it becomes crucial to ensure a complete and adequate finalization of all planned activities and their systematization.

12. Most Project activities have been agreed, planned and coordinated amongst a wide variety of actors, and commitments have been made over the years with beneficiaries, local/national governments and other key partners, which would ultimately be the most impacted if the Project cannot be properly completed.

13. This regional Project is helping to improve the dialogue on adaptation and other related issues between the Bank, the beneficiary countries, and the SGCA, and a one-year extension would enhance such dialogue.
14. The Project has received special attention and interest by national and international media, and, importantly, by other donors. The Bank team has been approached in the past by several bilateral cooperation agencies that expressed interest in directly supporting or expanding Project activities, and strategic partners such as CARE are actively mobilizing extra funds to continue activities after the current closing date. Granting a one-year extension would allow for adequate dissemination of success stories and would ultimately help countries attract extra funds towards critical sectors likely impacted by climate change.

15. The Project has supported cutting-edge technologies, such as the purchase and installation of high altitude monitoring stations, sophisticated methods for satellite image treatment, photogrammetry and application to glacier retreat studies. Some of these results are being presented at prestigious international conferences, and the extension would further allow consolidation of methodologies, dissemination of lessons and knowledge sharing.

**Main sources of delays and their status**

16. This Project has suffered delays for a number of reasons that were hard to predict and sometimes difficult to resolve. Fortunately, most of them are solved and implementation pace has accelerated significantly in the past months. Some of these delays were:

a. Lack of subsidiary agreement between Bolivia and SGCA prevented the Project from disbursing to that country, and forced SGCA to coordinate and issue an Andean Directive. This created a remarkable delay in activities, which could not start until November 2010. This problem has been completely solved.

b. One of the two pilot projects in Ecuador was targeting a new water supply system that EPMAPS, the Quito water utility, was going to build. Land tenure issues caused EPMAPS to drop the project after a long period. An alternative was proposed, focused on mainstreaming climate change considerations into another water supply system that EPMAPS was already procuring with other resources. Unfortunately, works were bid out two times, and both times no suitable contractor was found. A third collaboration alternative between the Project and EPMAPS had to be sought, with the corresponding loss of time. Feasible activities have now been identified after a significant coordination and outreach effort with different institutions in Ecuador, and several are in the procurement phase.

c. In July 2010, an amount of US$450,000 was additionally added to the Project, bringing the GEF Grant from US$7,490,000 to the current US$7,940,000. While this has benefited the Project, it has created more procurement processes and coordination efforts. An extension of the Project would thus partly cover these new needs.

d. The Project PIU consists of four people: a regional coordinator, a procurement specialist, a financial specialist, and an administrator/assistant. In January 2011 the procurement specialist resigned, and difficulties were experienced to identify and hire a replacement. This fact happened only in mid-October 2011, and
impacted the speed and efficiency of activities in a critical moment. The new procurement specialist has extensive experience working with Bank projects, and has shown high efficiency in his tasks. Additionally, the regional coordinator and the project assistant both resigned in July 2011 to pursue assignments at the Peruvian Government, and thus, for several months the PIU had only one member. A new assistant was hired in October 2011, but to date, the selection process to ensure a well-experienced regional coordinator has not yielded positive results. The regional coordinator is less critical at this point in time, since most Project activities are already agreed on and are being procured or implemented, and the work load is on the other two specialists. However, the regional coordinator was a key figure to lead the newly created regional component. If the on-going selection process for the regional coordinator, already at the evaluation phase, fails, a more technical coordinator will be sought instead, with the specific tasks of implementing the regional component.

e. As a positive side effect, the absence of PIU staff for long periods of time has generated savings in the project management component, which are thus available for use during a Project extension.

C. PROPOSED CHANGES

17. **First:** A one-year extension of the closing date of GEF TF091712, bringing it to September 30, 2013.

18. **Second:** Correction of an error in the amounts and parts of the Project to be financed under Category 2, introduced when the Project was restructured in August 25, 2011. To correct this error, and following the specific request sent by SGCA on March 20, 2012, the amounts allocated to Bolivia and Ecuador in the Disbursement Table must be swapped (reflected in the Table below). The Grant Agreement is amended to reflect this change.

**Table 1. Revised Disbursement Table.**

<table>
<thead>
<tr>
<th>Category of Expenditure</th>
<th>Allocation</th>
<th>% of Financing</th>
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<tbody>
<tr>
<td>Current</td>
<td>Revised</td>
<td>Current</td>
</tr>
<tr>
<td>1. Goods, consultants’ services, workshops and non-consultants’ services under Part 1 of the project.</td>
<td>1. Goods, consultants’ services, workshops and non-consultants’ services under Part 1 of the project.</td>
<td>325,087</td>
</tr>
<tr>
<td>2. (a) Works, goods, consultants’ services, workshops and non-consultants’ services under Part 2 (a) of the project.</td>
<td>2. (a) Works, goods, consultants’ services, Workshops and Non-consultants’ Services under Part 2 (a) (i) and Part 2 (b) (i) of the Project.</td>
<td>1,907,127</td>
</tr>
<tr>
<td>2. (b) Works, goods, consultants’ services, workshops and non-consultants’ services under Part 2 (b) of the project.</td>
<td>2. (b) Works, goods, consultants’ services, Workshops and Non-consultants’ Services under Part 2 (a) (ii) and Part 2 (b) (ii) of the Project.</td>
<td>1,816,807</td>
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</tbody>
</table>
2. (c) Works, goods, consultants’ services, workshops and non-consultants’ services under Part 2 (c) of the project.

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<tr>
<td>2,090,414</td>
<td>100%</td>
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3. Works, goods, consultants’ services, workshops and non-consultants’ services under Part 3 of the project.

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<tr>
<td>350,565</td>
<td>100%</td>
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<tr>
<td>100%</td>
<td>100%</td>
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4. Operating costs, workshops, goods, consultants’ services, and non-consultants’ services under Part 4 of the project.

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<tr>
<td>700,000</td>
<td>100%</td>
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<tr>
<td>100%</td>
<td>100%</td>
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5. Works, goods, consultants’ services, workshops and non-consultants’ services under Part 5 of the project.

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<tr>
<td>750,000</td>
<td>100%</td>
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<tr>
<td>100%</td>
<td>100%</td>
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7,940,000

- Safeguards
  19. The proposed restructuring does not trigger any additional safeguard policies. Safeguard arrangements continue to be valid through the proposed extension period.

- Institutional arrangements
  20. The proposed restructuring does not introduce any changes to the institutional arrangements.

- Financing
  21. The financing of the Project remains unchanged, with the required correction of the disbursement table as shown above (Table 1). The financing plan and sources of financing remain unmodified.

- Financial Management and Procurement
  22. The financial management and procurement arrangements for the Project are unaltered. The SGCA is the solely responsible entity that manages the funds of the Project and does all contracting under the Project. The financial management and procurement performance of the Implementing Agency has been rated satisfactory.

- Closing date
  23. A one-year extension of the closing date of GEF TF091712, bringing it to September 30, 2013.

- Implementation schedule
  24. The adjusted disbursement schedule based on the 2012-2013 Annual Operational Plan is presented below:
Table 2. Revised disbursement schedule (US$M)

<table>
<thead>
<tr>
<th></th>
<th>Accumulated March 2012</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.48</td>
<td>1.21</td>
<td>1.05</td>
<td>0.78</td>
<td>0.54</td>
<td>1.16</td>
<td>0.72</td>
<td>7.94</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
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25. The updated disbursement curve is shown in Figure 1.

**Figure 1.** Updated disbursement actuals and estimates.

D. APPRAISAL SUMMARY

26. The Project was restructured in August 25, 2011, through which the description of activities to be implemented was updated, the results framework was adjusted, and components were reorganized. The current restructuring only seeks a one-year extension to ensure adequate Project implementation, with no other changes to the Project. As such, the appraisal considerations included in the 2011 restructuring remain valid.

- Risks

27. The main additional risk perceived to date is closing the Project with insufficient time to implement planned activities, most of which have been agreed with counterparts and beneficiaries. Lack of implementation could create a difficult situation with counterparts and communities.
<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation Measure</th>
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<tbody>
<tr>
<td>Lack of implementation due to not extending the Project closing date: Many activities are planned and in the procurement phase, beneficiaries are awaiting results. Not extending the Project implies conflicts with beneficiaries and participating countries.</td>
<td>One-year extension of Project closing date. Intense Bank monitoring of the implementation pace. Rejection of any proposed activity that has not been planned in the past and is not well advanced in its definition.</td>
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<tr>
<td>Incomplete implementation despite a one year extension is granted: Difficulties with procurement processes and/or other sources of delays could prevent the Project from properly finalizing activities by September 2013.</td>
<td>The new regional coordinator or technical coordinator who will be hired through SGCA will have as a key responsibility to monitor Project implementation pace. Should activities extend beyond the closing date, the Bank team will assess the situation and look for alternatives in consultation with SGCA and the beneficiary countries.</td>
</tr>
<tr>
<td>Not enough resources in Project management component to finance the PIU: There is a ceiling of available resources for Project management, and a one-year extension would require extending PIU’s contracts but does not increase the ceiling for management.</td>
<td>The savings generated by the almost 10 months of absence of the procurement specialist, 3 months absence of the project assistant, and 8 (and likely more) months absence of the project coordinator provide resources to maintain the PIU for at least 8-9 extra months beyond the current closing date. It is expected that the PIU work load will be significantly reduced as activities approach their completion, and therefore some alternative arrangements could be implemented when appropriate if funds are lacking (part-time engagement of specialists, programmed phasing out of staff, rely on SGCA’s own staff to undertake certain tasks, or others).</td>
</tr>
</tbody>
</table>