DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

INTEGRATED TRANSPORT

APPROVED ON MAY 28, 2009

TO

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

TRANSPORT

AFRICA

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
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<td>P102368</td>
<td>Investment Project Financing</td>
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<td>28-May-2009</td>
<td>31-Jan-2020</td>
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Organizations

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<th>Responsible Agency</th>
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<tr>
<td>Ministry of Finance and Economic Development</td>
<td>Ministry of Transport and Communications</td>
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Project Development Objective (PDO)

Original PDO

The primary development objective of the project is to enhance the efficiency of the transport system by building modern business management capacity and improving the strategic planning aspects of inter-regional and critical transport infrastructure.

Summary Status of Financing

<table>
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Policy Waiver(s)

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

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
I. Project Status:

Overall Performance: After years of slow performance caused by delays in the procurement of the main component - Output and Performance-Based contracts (OPRC) (USD 131 million in IBRD financing), the project has turned around since FY18. Several actions taken have contributed to improve implementation pace including the Bank's threat to suspend disbursement until key actions taken. The Borrower well responded to the threat action in several fronts: (i) re-constituted the Special Project Management Unit (SMU) with the assignment of fifteen full time qualified government staff and expert consultants; (ii) restructured the disbursement method (increased % share of Bank financing); (iii) deployed a direct payment mechanism to subcontractors to boost their confidence and continued commitment and, (iv) introduced split payment for basecourse layer and surfacing, hence reduced CE's payment cycle. The Bank also provided intensive implementation support through interim technical missions and more frequent virtual review meetings. As a result of all these, notable progress has been achieved over the last one-year period:
- most of preparatory studies that play key role in transforming the sector have been completed and some under implementation;
- 91 percent (USD170 million) of the Bank loan committed in signed contracts; the remaining amount is related to a contract to which the Bank has given its no objection to award and contractor has been notified;
- A consistent improvement in disbursement over the past year has been noted. As of June 19, 2019, USD 84.02 million (45%) out of which USD 22.7 million, a quarter of the total disbursement over the last ten years, has been made only in FY19. This represents a disbursement ratio of 18%.

II. Component Wise Status:

Component A: Key outputs of the component were vital preparatory studies being implemented under Components B and C; and a few others are crucial in shaping the future direction of the Botswana transport sector. Out of the planned 16 outputs in this component, 13 of them have been delivered, one was cancelled, one is being completed in July and the remaining one is progressing well. The implementation progress of the component is rated as satisfactory.

Component B: This component relates to the implementation of two OPRC packages, which has shown substantial progress (27 percent since the mission in August 2018) and contributed to the substantial increase in disbursement. As of date, rehabilitation works under package 1 is 99% completed and entering routine maintenance phase soon. Rehabilitation works under package 2 is 56% complete, and due to be completed in November 2019. The project in aggregate has completed the rehabilitation and improvement of some 254km of roads, which includes 50 km critical access roads to communities along the corridors. Besides the physical progress of works, the mission noted satisfactory compliance to the technical, social and environmental safeguards requirements. The audit of RAP implementation has been completed and noted that all compensation proposed by the RAP have been made. The implementation progress of the component is rated moderately satisfactory as upgraded in the mission May 2019.

Component C: The two major activities under the component are progressing reasonably well; these are: (i) improving the traffic signalization system of 129 traffic intersections in the Greater Gaborone area with centralized traffic controlling (CTC) system, for which design has been completed and moving into the installation phase; (ii) the contract for civil works to improve the geometric design of 40 of these intersections has just been awarded. The design of interchanges at three major intersections to improve traffic flows in the Greater Gaborone city has been completed and synchronization with contract (i) is being done for better coordination. The implementation progress of the component has been upgraded to moderately satisfactory.
The World Bank
Integrated Transport (P102368)

The most recent mission confirmed the project’s return to a satisfactory path hence the upgrading of implementation performance (IP) rating to Moderately Satisfactory. The Development Objectives (DO) was rated Moderately Satisfactory expecting to be met within the extended period, which has been discussed and in principle agreed with CMU.

Proposed changes:

This restructuring paper seeks approval for the first extension of the project’s original closing date from January 31, 2020 to December 31, 2021. The Borrower’s initial request was to extend it up to March 31, 2022, just to coincide it with the budget year end, while the intention was the end of the calendar year 2021, when activities critical to achieving the DO would be completed. This was clarified during the May 2019 mission and recorded in the aide memoire.

Results to be achieved by the extended period:

With this extension, the project will be able to substantially meet its development objectives, because the following activities directly related to the DOs will be completed within the extended period. Three of the four PDO outcomes would be achieved through the completion of activities under component B- OPRC roads and Component C- urban infrastructure. The fourth outcome is achieved by the completion of the preparatory activities under component 1. By the extended period all these outcomes would be totally/substantially achieved. The details are as follows:

(i) Component A – The progress of this preparatory studies stands at 70% and due for completion by end July 2019.

(ii) Component B

• Rehabilitation works in Package 1 - 122 km out of 123 Km (99%) of main roads has been completed, 1.6 km of surfacing work remains to be completed. For access roads 40 km out of 53 km (75%) has been completed the remaining 13 kms of surfacing and 1.2 km of earthworks and basecourse are due to be completed by end July 2019.
• Rehabilitation works in Package 2 - 82 km out of 145 km (56%) of main roads has been completed, 48 km earthworks and 64 km of surfacing remains to be completed. For access roads 10 km out of 14 km (68%) has been completed, with a balance of 4 km earthworks, basecourse and surfacing. The Borrower estimated the completion of this package by November 2019. The contractor performed well over the last year completed over 60 km of road rehabilitation in less than a year. In the team’s opinion, the same pace would allow the contractor to complete the remaining 68 km road works by end of 2020. By completing package 1 in July, the contractor would reinforce its resources for Package 2, which would provide him further boost to the pace of implementation.
• By the end of the extended period the 336 km of network would have received a seven and half years of routine maintenance, with one of the highest standard level of services.

(iii) Component C

• Package 1 – Improving traffic signals and CTC: The design has been completed and endorsed by the Borrower. Implementation has started for completion in 24 months and is likely to be easier given the work is to replace existing signals where right-of-way and restriction to access is not an issue. The work would be completed by July 2021.
• Package 2 – Intersection improvement – Civil Works: The design-build-maintain contract for improving 40 intersections has just been recommended for award. Design will take 6 months and construction will take 18 months. Most intersections have ample right-of-way for widening, and the work is expected to be completed by January 2021. Some intersection may have a small amount of land to be acquired with no resettlement at all.
Project Management and Monitoring
The Borrower has prepared an implementation plan for each remaining activity under the project with a greater detail to the key components and activities. The team has reviewed the plan and found it realistic and going forward, will be helpful to monitor the project. The team will also work with the Borrower to get the financial plan with a reasonable level of details. In addition the Borrower will need to continue the encouraging work started on the result framework, mainly on the missing baseline data aiming at finalizing it by the next implementation support mission – August 2019.

Activities that may run beyond December 31, 2021 (Extended Closing Date)
- Component A: would be completed and no activity would run beyond the extended completion date.
- Component B: All rehabilitation works would completed. The planned periodic maintenance on about 70 km of road section will not be done. The original plan was to perform a pavement resurfacing on the most distressed road sections which would have carried traffic for 7-8 years after being rehabilitated (expected to be on a length of about 70 km). Due to delayed implementation, by the contract completion (May 2024), most of the roads would still be in good condition, rendering the periodic maintenance intervention unnecessary. The Borrower in due course may discuss with the CE to drop the activity and restructure the contract. After the extended closing date, about two years and half of routine maintenance would need to be completed, for which the Borrower would by then have the experience and the resources necessary to do it, until the contract ends.
- Component C: after the installation of traffic signals and the developing CTC is completed by July 2021 there is a 5 months window for training of counterpart staff and operation and maintenance before loan closing. The O&M part of the contract will run for another 30 months. By then, the Borrower is expected to have developed the required capacity to manage the contract. The civil works to widen and improve traffic intersection would be run in parallel with the traffic signals and CTC, and it will have a 5 months window for O&M out of a 12 months period.

Disbursements: The estimated IBRD disbursement by the current closing date is expected to reach US$127 million (68%), whereas by the end of the proposed extended period it is estimated to reach US$160 million (86%). The significant portion of the undisbursed balance at the end of the extension period is related to the periodic maintenance interventions that will not be needed under the current OPRC contract.

Perceived risks to the proposed extension:
If the loan is extended, the main risks that the project will remain to face are related to:

(i) OPRC contractor weak financial situation: this has been the major issue in the last one year, which at times halted both the packages and have slowed down disbursement. The Borrower has taken measures as alluded in section I, Project Status (above). An additional measure to release the CE’s retention payment has been proposed and the Bank just issued its no objection. With this added liquidity, the CE would be able to meet some of its debt to subcontractors and encourage them to resume work.

(ii) OPRC contractor abandoning the work after completing the rehabilitation: the contract payment structure by design defers about 10 percent of the rehabilitation works to be payed as part of the maintenance payment spread over the maintenance period. The CE has a strong incentive not to abandon the site after the completion of rehabilitation to avoid forfeiting a sizable rehabilitation payment and the performance security.
(iii) Sustainability of Urban Infrastructure Component Outcomes: while the development of modern traffic signals, improved intersections and a centralized control system is being implemented by MTC, the long-term operation and maintenance of the system must be taken over by a dedicated unit housed either in the Gaborone City Council or the Ministry of Local Government. The discussion to create such a unit, which potentially could evolve to an Urban Transport Authority, did not get enough traction. The team plans to push the discussion at the higher level, through specific urban transport focused missions involving the Bank’s management in the GP and seeking CMU’s support. This engagement could be part of the broader dialogue with GoB on potential pipeline projects stemmed from the key urban transport initiatives formulated under the project.

Extending the loan will allow the client to complete key infrastructure activities, and the Bank to provide close implementation support and monitoring compliance with corporate requirements. This option avoids a situation where the client is left to deal with E&S and OHS risk on its own, which could create a reputational risk in case of non-compliance in the absence of Bank’s close monitoring. The Bank’s technical advice during the initial operational and maintenance years of the OPRC will also be possible, helping to build up the capacity of the client to take this function on its own during the last period of the contract.

If the loan is not extended, the project will not fully achieve its development objectives. The extension would enable the Borrower to complete activities critical to achieve the development objectives. The proposed extension would also give enough time to build MTC capacity to support the implementation of other works that would run beyond the extended closing date as well as build capacity to manage/sustain the Borrower’s existing own-funded road stock.

The Bank’s support during the extended period will be reinforced by (a) the overall guidance and closer support by the the Transport Practice Manager, who is soon moving to Pretoria; (b) assigning as a co-TTL an urban transport specialist located closer to Botswana; (c) rigorous monitoring of the revised implementation plan by the team, including through interim technical missions and virtual meetings via VC and WebEx.

The Task Team confirms that the requirements of OP/BP10.00 regarding extension of closing dates are met, specifically (i) the project objectives continue to be achievable; (ii) the performance of the Borrower remains moderately satisfactory; (iii) the World Bank and the Borrower have agreed on actions to be undertaken by the Borrower to complete the Project; and (iv) there are no outstanding audits or IFRs for the Credits

II. DETAILED CHANGES

LOAN CLOSING DATE(S)

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