DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

CVU HIGHWAY PROGRAM

(UR-L1022)

LOAN PROPOSAL

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1.	Annual Work Plan (AWP): http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1607608
2.	Monitoring and Evaluation Arrangements: http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1607688
3.	Environmental and Social Management Report (ESMR): http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1607512 If required and as specified in the guidelines for Operational Policy OP-730 and Disaster Risk Management Policy.
4.	Procurement Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1624732
5.	Safeguard Screening Form for Classification of Projects (SSF) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1635683
OPTIONAL	
1.	Institutional Capacity Assessment of CVU: http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1607708

ABBREVIATIONS

CAF	Andean Development Corporation
CND	Corporación Nacional para el Desarrollo [National Corporation for Development]
CREMA	Contrato de rehabilitación y mantenimiento [road rehabilitation and maintenance contract]
CVU	Corporación Vial del Uruguay [Road Corporation of Uruguay]
DNV	Dirección Nacional de Vialidad [National Highway Department]
ESMR	Environmental and social management report
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
MAOASV	Environmental Manual for Works and Activities in the Road Sector
MEF	Ministry of the Economy and Finance
MTOP	Ministry of Transportation and Public Works
NRS	National road system
PDL	Performance-driven loan

PROJECT SUMMARY

URUGUAY
CVU HIGHWAY PROGRAM
(UR-L1022)

Financial Terms and Conditions			
Borrower: Corporación Nacional para el Desarrollo [National Corporation for Development] (CND) **Guarantor**: Eastern Republic of Uruguay **Executing agency**: Corporación Vial del Uruguay [Road Corporation of Uruguay] (CVU)		Amortization period:	12 years
		Grace period:	5 years
		Disbursement period:	5 years
		Interest rate:	Variable
IDB (Ordinary Capital)	US$100 million	Inspection and supervision fee:	*
Local	US$ 25 million	Credit fee:	*
Total	US$125 million	Currency:	U.S. dollars from the Single Currency Facility

Project at a Glance
Project objective/description: The general objective of the program is to facilitate freight and passenger transportation in Uruguay by improving road infrastructure quality in the corridors of the national road system concessioned to CND. Another objective is to ensure the sustainability of road investments through effective and efficient maintenance. In order to achieve those objectives, the program will finance road rehabilitation and maintenance contracts (CREMA contracts) as part of the contractually required works to begin execution in the first half of 2008 under the CVU concession.
Special contractual conditions: Evidence that an agreement has been signed for the execution and transfer of resources between CND and CVU. **Condition precedent to the disbursement of loan proceeds after the 20% advance:** Evidence will be presented to the Bank that consulting services have been engaged for an independent performance evaluation. **Special execution condition**: The executing agency will provide the Bank with evidence of the findings of financial statement audits and a report on its institutional performance, on an annual basis for review by the Bank.
Exceptions to Bank policies: None.
Project consistent with country strategy: Yes [X] No [ ]
Project qualifies as: SEQ [ ] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ]

* The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1%.

I. DESCRIPTION AND RESULTS MONITORING

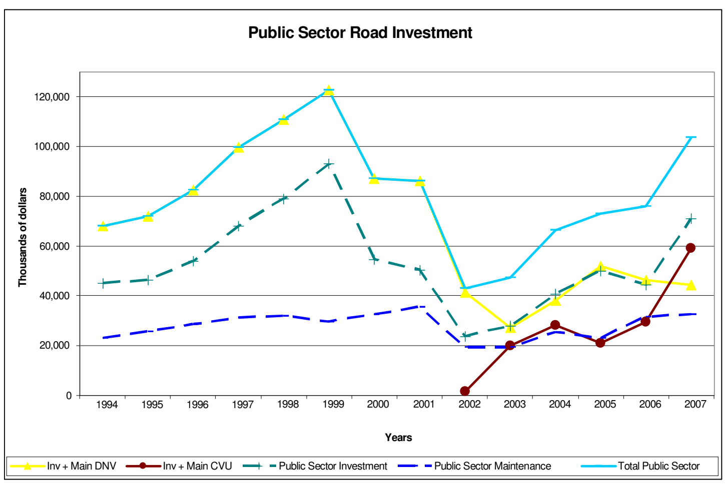
A. Introduction

1.1 The Government of Uruguay has requested a loan of US$100 million to finance the highway investment program of Corporación Vial del Uruguay (CVU). The borrower for the operation will be Corporación Nacional para el Desarrollo (CND), the executing agency will be CVU, and the guarantor will be the Eastern Republic of Uruguay.

B. Background, problem addressed, and rationale

1.2 **Uruguay's road transportation system.** The road system is used for nearly all passenger transportation within the country, and 90% of freight. It comprises approximately 70,732 km of roads, of which 8,732 km belong to the national road system (NRS) managed by the Dirección Nacional de Vialidad [National Highway Department] (DNV) under the jurisdiction of the Ministry of Transportation and Public Works (MTOP), and 62,000 km are departmental roads managed by the country's 19 departments. With 50 km of highways per square kilometer, Uruguay has the highest road density in South America. Some 7,743 km (11%) of roads are paved, accounting for 89% of the NRS. Of those paved roads, only 39% have a high-grade surface (concrete or asphalt), while the remaining 50% have a medium-grade surface (bituminous mixtures or reinforced asphalt). Most of the NRS has relatively low volumes of daily traffic: 81% of the network carries between 0 and 1,200 vehicles per day, while only 6% record more than 2,500 vehicles. However, traffic volumes have increased 4.2% annually in recent years.

Figure I.1 Investment Trends 1994-2007



1.3 **Financing.** Financing of the road sector has depended largely on the five-year investment plans developed by each administration and approved by the National Congress, although that dependency has waned with the creation of CVU in 2002. Investment in highway administration was strongly affected by the economic recession that began in the late 1990s and culminated in crisis in 2002. Expenditure for investment in and maintenance of the road system—which reached a historic peak on the order of 120 million in 1999—fell to less than 50 million annually in 2002. In this context, the DNV prioritized spending on road system maintenance, appropriating nearly the entire budget for such purposes. Even so, many maintenance agreements with the private sector could not be completed, and the standards of maintenance on

force account had to be lowered. This situation, combined with stalled investment, had a direct impact on the condition and asset value of the road system, which fell from US$2.23 billion in 2000 to US$2.16 billion in 2005. With the creation of CVU in 2002 and recovery from the crisis, spending on investment and maintenance rose steadily to 110 million in 2007. An ever greater percentage of that spending has been executed by CVU in relation to execution under the national budget by the DNV, while maintaining the relative importance of road maintenance as a percentage of total expenditure. As a result of resuming investments and spending on maintenance, the asset value of the road system not only stopped declining, but by 2008 was returning to the 2000 levels.

1.4 **Maintenance systems**. Maintenance work on the road system is performed through a combination of systems, including force account for 59% of the NRS, performance-based routine maintenance agreements for 16%, performance-based rehabilitation and maintenance agreements for 6%, and concessions for 19%. While maintenance on force account is still predominant, maintenance of the rest of the road system has been contracted or concessioned under performance-based systems.

1.5 **Concession contracts.** The MTOP started granting NRS concessions in 1994, particularly in corridors with the highest traffic volumes, notably the Interbalnearia Route between Montevideo and Punta del Este. In 2001, the MTOP created the "Megaconcession" arrangement, which took a substantial portion of the NRS out of the DNV's control and handed over its operation, improvement, and maintenance to an autonomous entity financed by commercial vehicles. The Megaconcession was granted to CND in 2001, authorizing it to create a company for performance of the contract. That company was CVU, established in October of the same year.

1.6 **Corporación Vial del Uruguay (CVU).** CVU is a corporation operating under private law whose capital stock is owned by CND. CND, in turn, is a public entity operating under private law that is 98%-owned by the Government of Uruguay, with the other 2% owned by Banco de la República Oriental de Uruguay. In 2002, CND was granted a 15-year concession to improve, maintain, and operate 1,300 km of the NRS (more than half the primary road system, including stretches of Routes 1, 2, 3, 5, 8, 9, and 11, as well as the Interbalnearia Route from January 2008 onward. As a source of funding, it was alloted the revenue from nine toll booths and an annual subsidy of approximately US$15 million. In 2005, the MTOP and CVU renegotiated the concession contract, expanding the road network under concession to 1,600 km, increasing the number of toll booths allotted to CVU, and lengthening the concession to 18 years. In July 2008, the MTOP and CVU again renegotiated the contract, increasing the annual subsidy to US$25 million and expanding the scope of the concession.

1.7 The main sources of revenue for CVU are: (i) the annual subsidy from the grantor of the concession (included in DNV's budget) in the amount of US$25 million;[1] (ii) toll revenue (consideration paid by users) estimated at US$32 million annually from 2008 onward; and (iii) income from concession-related services. CVU also receives financing from the Andean Development Corporation (CAF) in the amount of US$70 million, and is issuing up to US$100 million in debentures with a security trust funded by toll revenue for.

1.8 The early years of the concession arrangement were marked by the effects of the economic crisis affecting the country. Notwithstanding the crisis, significant investments were made for more than US$80 million, rehabilitating more than 340 km of roads and bridges and performing maintenance on more than 995 km. CVU currently has an investment and maintenance program of approximately US$800 million executable over the life of the concession.

1.9 CVU is contractually obligated to complete a series of mandatory works and to guarantee a certain level of service on the road network under concession. CVU's responsibility for the concessioned roads ranges from technical and administrative management of the concession to construction, service level maintenance, operation, and management of public infrastructure works. The DNV provides technical assistance to CVU in multiple areas related to operation of the concession, including technical supervision of works and preparation of construction designs. Through this mechanism, the MTOP assumes a portion of the total costs involved in the works. However, performance of the concession contract by the concessionaire is determined by attaining a certain level of expenditure on works, maintenance, and services, independent of the concessionaire's commitments with respect to mandatory works and service levels. Therefore, the concessionaire must keep up a fixed flow of annual expenditures to comply with the contract.

1.10 **The country's sector strategy.** The Government of Uruguay has prioritized recovery of public investment as an essential tool to support to the country's sustained growth with equity and social development. The MTOP is responsible for fostering and promoting investment in, and management of, the country's road infrastructure, to improve and maintain not only the NRS administered by the DNV, but the secondary road system as well, and promote improvements in rural roads. In 2008, the Government of Uruguay foresees levels of investment in the road sector exceeding the 1998 levels (more than US$106 million annually), which will create 3,000 new jobs.

1.11 In its transportation sector strategy, the Government of Uruguay has prioritized investments in road maintenance and infrastructure, but is facing budgetary restrictions in the coming years for new construction and rehabilitation works. The Five-year Plan 2006-2009 placed a cap on investment spending on the order of 50% of annual appropriations. Thus, in 2006, the budget cap for the MTOP was

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[1] Renegotiation of the concession contract in July 2008 increased the annual subsidy to US$25 million. These terms are currently being reviewed by the State Audit Court of Uruguay.

US$100 million, of which US$66 million was earmarked for the DNV. That amount only enabled the DNV to cover its expenses for administration, contractually-agreed works, maintenance agreements, and road safety program, leaving practically no budget for new works. This situation was repeated in 2007 and only began to turn around in 2008.

1.12 In the context of the budgetary restrictions faced by the DNV, and in order to address and give continuity to the plan of works, the Government of Uruguay decided to expand the concession contract with CVU, which is exempt from the fiscal restrictions in the public sector. An important aspect of that strategy—evident in the overall tenor of the CVU concession—is ensuring the sustainability of investments in the sector by pursuing interventions to keep the road system in an acceptable condition, so as to prevent further deterioration in service levels and increases in operating costs for users. However, the investment program laid out in the concession contract entails a significant amount of works to be completed in the first few years, a portion of which are unfunded. CVU has been funding its investment program through multilateral financing (two CAF loans for a total of US$75 million, replaced with a single US$70 million operation) and one debenture issue (US$30 million).[2] The proposed program will provide the additional financing required for CVU to execute its road infrastructure investment program under the concession. Thus, one of the main justifications for the proposed operation is to help preserve and recover the significant asset value of the country's road system.

1.13 **Rationale for the Bank's involvement.** With Bank support, the Government of Uruguay has been implementing projects to make the economy more competitive with investments directed at improving the condition of the road system. The Bank's involvement has supplied the additional resources needed to develop the road infrastructure, expanding capacity and strengthening the institutional capabilities of the DNV. Bank participation will make it possible to advance the country's agenda to preserve and maintain the country's existing road system, seeking to reduce the administrative costs associated with frequent change orders and contract oversight; encouraging greater innovation and better risk allocation by shifting more responsibility to the private sector under performance-based contracts; and improving standards of service, directly benefiting the end user of road infrastructure services. The Bank involvement will create the necessary conditions for capacity building and the necessary incentives for ongoing maintenance of the road system.

1.14 **The Bank's country strategy.** The proposed program is consistent with the Bank's country strategy with Uruguay 2005-2009 (document GN-2398-2). The objective of that strategy is to help the country sustain robust enough growth rates to reverse the

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2 Two series for US$7.5 million each, both at LIBOR + 1.5%, a third series for 180 million pesos, and a fourth series for 160 million pesos (each equivalent to US$7.5 million) at a fixed rate of 4.5%. The US$30 million corresponds to the first tranches of an Issue Program of US$100 million. The issues have received a Fitch rating of AA (uy).

deterioration triggered by the recession and crisis early in the decade of 2000, and create the conditions for lasting improvements in living standards. Consistent with the country strategy, the Bank will provide technical and financial support in three strategic areas: (i) improving public management and sustaining fiscal soundness; (ii) strengthening competitiveness and Uruguay's international positioning to sustain growth; and (iii) poverty reduction and social inclusion as a pillar of sustainable growth. The proposed program falls under the second strategic area defined in the country strategy, which includes road transportation as a key pillar within infrastructure development to support competitiveness. Specifically, the proposed program will directly contribute to improving the country's road infrastructure, reducing costs and increasing the efficiency of passenger and freight transportation, and helping to make the country more competitive.

1.15 **Experience in the sector.** The Bank has actively supported the transportation sector in the country through: (i) the Integration Corridors and Primary Road Improvement Program (loan 1022/OC-UR, approved in 1997 with financing of US$123 million), which financed the rehabilitation of approximately 530 km of primary roads and the widening or reconstruction of 27 bridges, exceeding the proposed physical targets in terms of kilometers of rehabilitated roads, achieving highly satisfactory results, and meeting the proposed objective of lowering transportation costs on Uruguay's main integration corridors; and (ii) the Highway Infrastructure Program (loan 1582/OC-UR, approved in 2004 with financing of US$77 million). The 1582/OC-UR program was reformulated in 2006 to prioritize maintenance activities and is currently in execution.

1.16 **Support from other multilateral agencies.** The World Bank has also actively supported Uruguay's road sector, mainly through two loans (IBRD 3021-UR for US$80.8 million approved in 1989, and IBRD 4395-UR for US$64.5 million approved in 1998). With the Transport Infrastructure Maintenance and Rural Access Project (IBRD 7303-UR for US$70 million approved in 2005), the country intends to extend the use of road rehabilitation and maintenance contracts (CREMA contracts) to 981 km of the NRS. The CAF has provided additional support to the sector through two loans for US$25 million and US$50 million approved in 2002 and 2005, respectively, which were repaid early and then replaced in 2007 with a single US$70 million operation. All of those loans are used to finance a portion of the planned investments under the CVU concession contract.

C. Objective, components, and cost

1. Objective

1.17 The general objective of the program is to facilitate freight and passenger transportation in Uruguay by improving road infrastructure quality in the corridors of the national road system concessioned to CVU. Another objective is to ensure the sustainability of road investments through effective and efficient maintenance. In order to achieve those objectives, the program will finance road rehabilitation

and maintenance contracts (CREMA contracts) as part of the contractually required works to begin execution in the first half of 2008 under the CVU concession.

1.18 As a result, the program is expected to help improve the quality of the road infrastructure in the main corridors of the NRS, ensure that such infrastructure provides an acceptable level of service to users over time, and preserve the asset value of the country's road system. These outcomes will help reduce the costs of transportation for users and will result in lower future maintenance costs.

2. Loan modality

1.19 The Bank has agreed with the country to use the performance-driven loan (PDL) modality, which emphasizes attainment of the program objectives in addition to providing traditional financial support for investments. In a PDL, disbursements are tied to the achievement of certain specific targets directly related to the program objectives.

1.20 Given the nature of the proposed loan, this instrument has the following advantages: (i) disbursements are contingent upon meeting the program objectives, creating incentives that focus technical and financial efforts on those objectives rather than on inputs or a discussion of the policies applied to meet them; (ii) in addition to all the expenses eligible under a traditional investment loan, the PDL makes it possible to finance recurrent expenditures, provided they are considered necessary to meet the program objectives and there is a guarantee of sustainability of the investment, in this case, road maintenance; (iii) the program objectives are suited to the new contracting modalities (service level) being implemented by CVU and are consistent with the contractual commitments under the MTOP-CND concession. This type of instrument (document GN-2462) will help CVU to move forward with its investment plans within a management-for-results framework.

3. Components

1.21 The program will have two main components, one focusing on works and road maintenance, and the other on the institutional strengthening of CVU.

1.22 **Component 1. Works and maintenance (US$110 million)**. The first component will finance rehabilitation works and long-term road maintenance agreements included in CVU's investment plan for the road network under concession.

1.23 The following eligibility criteria must be met for works and contracts to be included in the financing: (i) located within the road system under concession, as described in clause 3.1 of Annex I of the concession contract of 30 July 2008; (ii) designed to preserve the existing road system, although additional rehabilitation works or minor improvements in the existing infrastructure may be included, but not major works that involve the expansion or substantial improvement of the capacity of the concessioned road system; (iii) socially and environmentally sustainable; (iv) positive economic return (IRR > 12%); and (v) certification from the CVU that the related counterpart funds are available.

Table I.1. Performance-based Maintenance Agreements

Route	Description	Status	Start Date	Amount
11	Service level maintenance and rehabilitation works on Route 11, section: Atlántida (167k000) – Planta Urbana Ecilda Paullier (12k700)	Contracted	Sep-07	10,948,310
9	Service level maintenance and rehabilitation works on Route 9, section: Interbalnearia Route (105k650) – Rocha (210k000)	Contracted	Sep-07	8,168,775
1	Service level maintenance and rehabilitation works on Route 1, section: Montevideo access beltway – Libertad bypass (Route 45)	Contracted	Mar-08	15,339,545
1	Rehabilitation and maintenance on Route 1 between Route 45 and Colonia	Contracted	Jan-08	21,641,346
2	Service level maintenance on Route 2, section: Cardona (182k400) – General San Martín International Bridge (308k500)	Contracted	Feb-08	5,841,002
3	Maintenance contract, Route 3 (second round)	Tender being prepared	Jan-09 (estimated)	12,325,934
5	Maintenance contract, Route 5 (second round)	Tender being prepared	Jan-09 (estimated)	12,590,169
8	Maintenance contract, Route 8 (second round)	Tender being prepared	Jan-09 (estimated)	9,037,600
I.B.	Service level maintenance and rehabilitation works on the Interbalnearia Route, Route 9, section: Route 8 (65k100) – Route 99 (92k850) and Route 101, section: Airport (18k700) – Interbalnearia Route (21k300)	Tendered	Nov-08	14,107,320

Amounts in U.S. dollars including benefits but excluding taxes.

1.24 Nine contracts for works and service level maintenance (Table I.1) have been preliminarily identified in CVU's Investment Plan that meet these criteria and could be financed by the program. Those contracts are (i) performance-based contracts, which means that in addition to maintenance, the contractor is responsible for managing that maintenance and identifying the works necessary to achieve the contracted service levels; and (ii) comprehensive, covering the entire road infrastructure and requiring service levels for all highway components, including the roadway, shoulders, engineering works, median strip, road safety, and lighting.

1.25 **Component 2: Institution-strengthening (US$250,000)**. This component will finance activities related to implementation of a business management system that can incorporate a database of financial and operating information. The system will improve financial planning, expedite approvals of work completed, and automate authorizations and payment processing. This component will finance procurement and implementation of the system.

1.26 **Component 3: Consulting assignment to evaluate performance (US$1 million).** This component includes activities related to the independent evaluation of

performance to verify compliance with targets associated with the program outcomes.

4. Cost

1.27 The total cost of the program will be US$125 million, of which US$100 million (80%) will be financed by the Bank. The remaining US$25 million (20%) will be contributed by the local counterpart. The resources are broken down by component and contribution as follows:

Table II-2. Costs and Financing (in US$ thousands)

Description	IDB	**Counterpart**	**Total**	%
1. Direct Costs				
1.1 Component 1: Works and road maintenance agreements	99,000	11,000	110,000	88.0%
1.2 Component 2: Institution-strengthening	0	250	250	0.2%
1.3 Component 3: Performance evaluation	1,000	0	1,000	0.8%
2. Contingencies				
2.1 Contingencies and scaling of works	0	13,750	13,750	11.0%
3. Financing Costs				
3.1 Credit fee	-	-	-	0.0%
3.2 Interest	-	-	-	0.0%
3.3 Inspection and supervision	-	-	-	0.0%
TOTAL PROGRAM	**100,000**	**25,000**	**125,000**	**100%**
% of financing	**80%**	**20%**	**100%**	

D. Results framework and key results indicators (monitoring of PPMR)

1.28 The objective of this investment program is to support improvements in the quality of the national road system infrastructure concessioned to CVU, ensuring the sustainability of investments through effective and efficient maintenance. In order to achieve this objective, the program channels resources into service level maintenance agreements as a way to focus on the achievement of measurable results in preserving the road system. Accordingly, a series of indicators have been developed that place emphasis on system coverage with service level maintenance, and on results obtained with respect to road system maintenance. Those indicators include:

a. **Maintenance coverage index (CI).** This indicator quantifies the length of the road system under performance-based maintenance agreements, and is defined as the weighted average, in length and infrastructure components (roadway, shoulders, road safety, engineering works, and median strip) under service level maintenance agreements. This indicator currently has values on the order of 45%. It is anticipated that values of 90% will be attained by the end of the program.

b. **Weighted asset value of the road network (ARN/MRN).** The asset value of the road network (ARN) is the economic value of building the existing road infrastructure in its current condition. Also defined are the minimum asset value, which is the value of the infrastructure in its worst acceptable condition; maximum asset value, which is the value of totally new infrastructure; and the mean asset value of the road network (MRN), which is the average of the minimum and maximum values of road system assets. Studies by the Economic Commission for Latin America and the Caribbean (ECLAC) found that the total costs of transportation (cost of infrastructure maintenance plus vehicle operating costs) reach their lowest level when the ARN is slightly above the MRN. As a result of a successful highway administration policy in Uruguay, the ARN-to-MRN ratio has fluctuated between 97% and 103% for the NRS over the last 10 years. The objective of the program is for that ratio to stay above 100%.

c. **Service level (SL).** The service level of the concessioned road network, as provided in the concession contract, is an indicator that weights the condition of the different highway components (roadway, shoulders, engineering works, median strip, road safety, and lighting). At inception of the concession, that value was only 60%.

1.29 The main specific outcomes expected to be achieved by the program are summarized below, and are presented in greater detail in the Results Framework (Annex 1).

Expected Outcomes	Indicator	Final Target
Improvement of service level maintenance coverage	Coverage index (CI)	>90%
Asset value of the road network at the optimum level to minimize costs	Current asset value/ Mean asset value of the road network (ARN/MRN)	>100%
Service level of the road network	Service level (SL)	>90%

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument and contractual conditions

2.1 The operation will be executed under the performance-driven loan (PDL) modality (see paragraph 1.19) with a disbursement period of five years.

2.2 The amortization period for the operation will be 12 years. This period has been set for two reasons: (i) it coincides with the term of CND’s concession contract with MTOP, allowing the total loan balance to be repaid by CVU (see paragraph 3.5); and (ii) given the nature of the investments to be made (minor rehabilitation and road maintenance), their useful life approximates this term.

2.3 Disbursements will be contigent upon meeting the preestablished targets, and verification by the Bank of the expenditures made by the borrower to meet them. An independent consultant will verify such targets and expenditures. As a **condition precedent to the disbursement of loan proceeds after the 20% advance**, evidence will be presented to the Bank that such consulting services have been engaged.

2.4 The indicators, baseline, and targets in the Results Framework have been agreed upon with the executing agency, and are consolidated in a detailed technical report (see the technical files) that describes the methodology and basic data to be used to measure the indicators. The key indicators selected—i.e. asset value of the road network and the coverage index—are commonly used in the design and evaluation of road projects. They are easy to measure, and the basic data necessary for measurement is collected regularly by the DNV and other government agencies.

2.5 The flow of disbursements based on meeting the preestablished targets (see paragraph 1.29) is presented below:

Table 2.1. Table of Indicators and Disbursements

Target	Timing	Indicator / Target	%	Disbursements (in US$ millions)	
				Disbursed*	Cumulative
-	Advance	Request for advance	20	20	20
1	When target is met	CI ≥ 60%, ARN/MRN ≥ 100% , SL ≥ 90%	20	16	36
2	When target is met	CI ≥ 70%, ARN/MRN ≥ 100% , SL ≥ 90%	20	16	52
3	When target is met	CI ≥ 80%, ARN/MRN ≥ 100% , SL ≥ 90%	20	16	68
4	When target is met	CI ≥ 90%, ARN/MRN ≥ 100% , SL ≥ 90%	20	16	84
5	One year after target 4	ARN/MRN ≥ 100% , SL ≥ 90%	15	12	96
6	Two years after target 5	ARN/MRN ≥ 100% , SL ≥ 90%	5	4	100

* Disbursements for targets 1 through 6 include a 20% decrease as repayment of the advance.

B. Environmental and social safeguard risks and mitigation measures

2.6 Based on the Bank's Environment and Safeguards Compliance Policy (OP-703), the nature and objectives of the program, and its environmental and sociocultural impacts and risks, this operation has been classified as category "B". None of the program activities or works requires prior environmental authorization under Uruguayan environmental laws.

2.7 The proposed program will have positive economic, social, and environmental impacts. Initial improvement and maintenance of the riding surface will preserve the asset value of the country's road system and reduce the costs of transportation and travel times for both freight and passengers.

2.8 The works and services to be performed under the loan will be: (i) unscheduled maintenance or rehabilitation, consisting of upkeep of the wearing course.[3] Since the road system is mostly in average or good condition, initial rehabilitation work would be limited to the segments where it is needed; such work does not require new cut-and-filling or the acquisition of new land; and (ii) scheduled maintenance, consisting of routine or periodic work to keep the highway in serviceable condition.[4]

2.9 All of the works are quite simple and conventional from a road engineering standpoint, and will be done on land that is almost entirely flat. The potential adverse impacts will be small, and the contractors are familiar with prevention and mitigation measures. Even so, all road works of the DNV and CVU adhere to the technical and environmental specifications and procedures contained in the DNV's Environmental Manual for Works and Activities in the Road Sector (MAOASV), which were reviewed by the project team and deemed adequate. The general environmental specifications (EAG) contained in the second half of the manual are considered to be an integral part of all the contracts governed by the "General Bidding Conditions" of the DNV. The works will also also have an environmental monitoring and tracking system applicable to all contracts signed by CVU, which has hired an external consultant to develop the system and implement it through periodic audits independent from those performed by the DNV.

2.10 The works will be completed within the existing right-of-way. Accordingly, the program is not expected to affect properties or dwellings, or environmentally or socially sensitive or indigenous areas. In the event that low-income housing is affected, appropriate mitigation measures will be taken based on Bank Operational Policy OP-710.

2.11 CVU has sufficient capacity to ensure the sustainable implementation of the program, and the DNV has the necessary capacity to supervise the works from an environmental standpoint. Each work will have a construction manager who effectively oversees all matters related to the project, including environmental issues. Under Uruguayan legislation, that item represents a minimum of 3% of the total value of each work. Communication with the public regarding the works is the responsibility of the contractors and is covered in the MAOASV. All of this information is presented in greater detail in the environmental and social management report (ESMR) attached to this proposal for operation development.

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[3] Reinforcement of the pavement, such as overlays, regravelling, and treatments; improvement of drainage conditions, which includes work such as correction of medians and banks; cleaning of sewers and ditches, longitudinal culverts, etc.; repair and maintenance of bridges, such as the sealing of cracks, joint repair, change of supports, etc.

[4] Cleaning of sewers and culverts, cutting grass, and other minor repair and maintenance work.

C. Fiduciary risk

2.12 The financial and administrative management area, including project management, has 10 employees. The main activity (works) is contracted out to specialized companies, with a technical team to manage the hiring process and oversee execution of the works. The DNV supervises the works and maintenance and prepares construction plans as part of a technical assistance agreement entered into by the two entities. Accordingly, the Bank's Institutional Capacity Assessment System (ICAS) evaluated CVU's fiduciary risk in the context of the program, and determined that CVU's institutional capacity is satisfactory. CVU's annual financial statements are audited by an independent audit firm, and the findings published on the CVU website. For the purpose of monitoring CVU's performance and financial condition, as a **special execution condition the executing agency will provide the Bank with evidence of the findings of financial statement audits and a report on its institutional performance, on an annual basis for review by the Bank**.

D. Other key issues and risks

2.13 *Economic feasibility*. The financed program deals mainly with CREMA contracts and, to a lesser extent, rehabilitation works. It is well known that road maintenance is an economically profitable activity, so no economic evaluation was required. The rehabilitation works, or the part of the CREMA agreements corresponding to rehabilitation, will be evaluated prior to recognition as expenditures under the PDL, if CVU asks for them to be treated as expenditures made to meet the objectives.

2.14 Certain rehabilitation works included in the investment plan for the coming years, and for which sufficient general information, a budget estimate, and economic evaluation were available to determine their potential eligibility, were evaluated on a sample basis. That analysis showed that all the works meet the established eligibility requirements, with internal rates of return ranging from 17% to 53%.

2.15 *Financial condition of CVU*. CVU, as administrator of the concession, is financially sustainable. The resources committed to CVU by the government under the concession contract in the form of a subsidy (US$25 million annually until 2020), added to toll revenue (US$32 million annually), exceed CVU's contractually required expenditure for works, maintenance, administration, payment of interest, and amortization of loans over the life of the concession by US$20 million. Any cost overruns for works or other extra costs will not affect the concessionaire's bottom line since CVU's contractual obligation is expressed in terms of expenditures to be made. Any divergence from expected toll revenue and changes in interest rates will also have no financial impact on CVU, because the concession contract establishes mechanisms whereby the Government of Uruguay compensates CVU in the event of changes in revenue in dollars or the cost of financing.

III. IMPLEMENTATION AND MANAGEMENT PLAN

3.1 **Borrower, executing agency, and guarantor**. The borrower will be Corporación Nacional para el Desarrollo (CND), and the executing agency will be Corporación Vial del Uruguay (CVU), a corporation whose sole purpose, as stated in its by-laws, is the objectives set out in the concession contract.[5] The signature of an agreement for the execution and transfer of resources between CND and CVU will be a condition precedent to the first disbursement of the loan proceeds.

3.2 **Guarantee arrangements.** The Eastern Republic of Uruguay will be the guarantor for the obligations derived from the loan entered into between the borrower and the Bank.

3.3 **Borrower**. CND is a nongovernmental entity operating under public law. The law establishing CND in 1985 provided for its shareholders to be representatives of the State, with a minority of private shareholders. However, the latter were never incorporated. CND is 98%-owned by the Government of Uruguay through the Ministry of Economy and Finance (MEF), with the other 2% owned by Banco de la República (a public commercial bank). CND's directors are nominated by the Executive Branch but require congressional approval for their appointment.

3.4 CND's mission includes: (i) support the creation and strengthening of companies through equity participation; (ii) help to institute sector policies by encouraging investment in priority sectors; (iii) develop the capital market; and (iv) promote technological and scientific development in Uruguay. In its early years, CND supplied equity capital mainly to private enterprises. The current administration, in office since 2005, not only stopped investing in new ventures, but exited nearly all of the enterprises in which it was invested. Instead, CND prioritized two distinct strategic lines: first, the promotion of small and medium-sized enterprises (SMEs) through multiple mechanisms; and, second, public and private sector coordination in infrastructure sectors, building on the first such pilot experience, which was CVU. The near total abandonment of venture capital investments in private enterprises, combined with significant capital formation of the institution by the MEF, resulted in substantial improvement in the institution's equity profile.

3.5 CVU, as well as other companies owned by CND, have assumed sovereign-guaranteed debt obligations, thus creating a mechanism whereby CND takes on the debt at the same time that mirror agreements are entered into with its controlled companies. In that way, those companies are committed to honoring their obligations under the loans on a pari passu basis with the commitments assumed by CND. This mechanism shields CND with respect to the loans assumed. These agreements also stipulate that the recipient of the funds is the controlled company, which is required to honor the obligations. This same mechanism was employed in the CAF loans to CND/CVU.

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[5] These include activities related to studies, projects, construction, maintenance, operation, management, and financing of road infrastructure public works.

3.6 **Implementation arrangements.** CVU will be the program executing agency. Its specific responsibilities include: (i) plan execution of the loan and annual work plans (AWP); (ii) prepare procurement plans and updates; (iii) review the bidding documents for the procurement of consulting services, goods, and works; (iv) provide assistance and monitor the progress of consulting contracts, works, and goods procurements; (v) prepare and process the corresponding payments; (vi) prepare financial statements and disbursement requests; and (vii) monitor and evaluate program execution.

3.7 **Procurement.** According to the Bank's policies for PDLs (document GN-2278-3), the Bank's procurement policy is not applicable, but rather the norms and guidelines used by the borrowing country, provided that they are governed by the Bank's basic principles of competition, transparency, publicity, and due process, on which its own policy is based. The main provisions governing the procurement of works and services by CVU, as concessionaire, are contained in articles 21 and 22 of the concession contract between MTOP and CND, which are consistent with the aforementioned principles.

3.8 **Reimbursements chargeable to the loan proceeds and recognition of prior expenditures.** In accordance with the Bank policy on recognition of expenditures, retroactive financing, and advance procurement (document GN-2259-1), up to US$40 million of the loan proceeds may be used to reimburse expenditures incurred during the 18 months prior to approval of this operation, to execute the program components necessary to meet the targets set in the Results Framework. In addition, up to US$5 million equivalent in expenditures will be recognized against the local counterpart contribution, subject to the same conditions.

3.9 **Monitoring and evaluation.** One of the program components includes financing for activities related to an independent performance evaluation to verify that the targets associated with the program outcomes are met. Two or three annual performance evaluations are planned after each year of contract execution.

3.10 **Audit.** An audit will be conducted annually pursuant to the concession contract. CVU will present an independent external audit report certifying that the procedures followed for the procurement of goods and services are consistent with the contractually established norms.

URUGUAY
CVU HIGHWAY PROGRAM
(UR-L1022)

RESULTS FRAMEWORK

Program objective	To improve the quality of the national road network infrastructure concessioned to CVU, ensuring the sustainability of investments through effective and efficient maintenance.								
Outcome indicators	**Base Level 2008**	**Target 1 2008 (estimated)**	**Target 2 2008 (estimated)**	**Target 3 2009 (estimated)**	**Target 4 2009 (estimated)**	**Target 5 (one year after target 4 is met)**	**Target 6 (two years after target 5 is met)**	**Target**	***Comments***
Expansion of maintenance coverage	CI = 45%	CI>60%	CI>70%	CI>80%	CI>90%	CI>90%	CI>90%	CI>90%	Extension of the network with service level maintenance arrangements
Increase in the asset value of the road network	ARN/MRN =	ARN/MR N>100%	ARN/MRN >100%	ARN/MRN >100%	ARN/MRN >100%	ARN/MRN >100%	ARN/MRN >100%	ARN/MRN >100%	ARN: Economic value of building the existing road infrastructure in its current condition. MRN: Average between the minimum and maximum asset value of the road network.
Improvement in service level	SL=	SL>90%	SL>90%	SL>90%	SL>90%	SL>90%	SL>90%	SL>90%	
Related disbursement (% Total)	20 (advance)	20	20	20	20	15	5		Disbursements for targets 1 through 6 include a 20% decrease for amortization of the advance.
Actual disbursement (in US$ millions)	20	16	16	16	16	12	4		

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/08

Uruguay. Loan ____/OC-UR to Corporación Nacional para el Desarrollo
CVU Highway Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Corporación Nacional para el Desarrollo (CND), as Borrower, and with the Eastern Republic of Uruguay, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the CVU Highway Program. Such financing will be for an amount of up to US$100,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

LEG/SGO/CSC/IDBDOCS: 1625735
UR-L1022