

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

NEIGHBORHOOD IMPROVEMENT PROGRAM III

(UR-L1146)

**THIRD INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR
INVESTMENT PROJECTS**

(CCLIP)

NEIGHBORHOOD IMPROVEMENT PROGRAM

(UR-X1003)

LOAN PROPOSAL

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REQUIRED <ol style="list-style-type: none"> 1. Multiyear Execution Plan and Annual Work Plan 2. Monitoring and Evaluation Plan 3. Environmental and Social Management Report 4. Procurement Plan OPTIONAL <ol style="list-style-type: none"> 1. Project economic analysis 2. Evaluation of the Neighborhood Improvement Program (loan 3097/OC-UR)* 3. Program Operating Regulations (current version) 4. Technical analysis of the sample projects of the third Neighborhood Improvement Program 5. Analysis of compliance with the Public Utilities Policy 6. Component II pilot design 7. Climate-change accounting 8. Technical Cooperation - UR-T1191 – Support for preparation and execution of the third Neighborhood Improvement Program 9. Bibliography 10. Safeguard Policy Filter and Safeguard Screening Form for classification of projects

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ABBREVIATIONS

AWP	Annual work plan
BHU	Banco Hipotecario del Uruguay
CCLIP	Conditional Credit Line for Investment Projects
CGN	Contaduría General de la Nación [General Accounting Office of the Nation]
DINAVI	Dirección Nacional de Vivienda [National Housing Bureau]
ECH	Encuesta Continua de Hogares [Ongoing Household Survey]
ESIS	Environmental and Social Impact Study
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
FGA	Fondo de Garantía de Alquileres [Rental Guarantee Fund]
ICB	International competitive bidding
INE	National Institute of Statistics
MEP	Monitoring and evaluation plan
MRI	Marco de Reasentamiento Involuntario [Involuntary Resettlement Framework]
MVOTMA	Ministry of Housing, Land Management, and the Environment
NCB	National competitive bidding
NDC	Nationally determined contribution
OSE	Obras Sanitarias del Estado [State Water and Sanitation Company]
PAR	Program administrative record
PCU	Program coordination unit
PEP	Multiyear execution plan
PMB	Programa de Mejoramiento de Barrios [Neighborhood Improvement Program]
PMR	Program monitoring report
PNR	Plan Nacional de Relocalización [National Relocation Plan]
PRI	Plan de Reasentamiento Involuntario [Involuntary Resettlement Plan]
PRM	Project risk management
SIIF	Sistema Integrado de Información Financiera [Integrated Financial Information System]
TCR	Tribunal de Cuentas de la República [Audit Office of the Republic]
UTE	Administración Nacional de Usinas y Transmisiones Eléctricas [National Power Generation and Transmission Administration]

PROJECT SUMMARY

URUGUAY

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(UR-L1146)

THIRD INDIVIDUAL OPERATION UNDER THE CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP)

NEIGHBORHOOD IMPROVEMENT PROGRAM

(UR-X1003)

Financial Terms and Conditions				
Borrower: Eastern Republic of Uruguay			Flexible Financing Facility ^(a)	
			Amortization period:	25 years
Executing agency: The borrower through its Ministry of Housing, Land Management, and the Environment (MVOTMA)			Disbursement period:	5 years
			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	70,000,000	70	Credit fee:	^(c)
Local:	30,000,000	30	Inspection and supervision fee:	^(c)
Total:	100,000,000	100	Weighted average life:	15.25 years
			Currency of approval:	U.S. dollars
Project at a glance				
<p>Project objective/description: The third proposed operation continues to pursue the aim of the CCLIP and has the general objective of helping to improve living conditions for the inhabitants of informal settlements and rundown areas. Its specific objectives are to: (i) foster urban integration by providing formal basic infrastructure and adequate social and urban services, while guaranteeing secure property tenure and enhancing social capital, taking climate change issues into account; and (ii) provide affordable housing to low-income population groups, while restoring rundown urban spaces in Montevideo's historic downtown area.</p>				
<p>Special contractual condition precedent to the first disbursement of the loan: The borrower, acting through the executing agency, will provide evidence that the updated program Operating Regulations and their respective annexes have taken effect, pursuant to the terms previously agreed upon with the Bank (paragraph 3.4).</p>				
<p>Special contractual execution conditions: Before the start of any work in Components I and III, evidence will be presented that a subexecution agreement has been signed between the executing agency and the participating department, pursuant to the terms agreed upon with the Bank (paragraph 3.1). For special contractual conditions of a socioenvironmental nature, see the Environmental and Social Management Report.</p>				
Exceptions to Bank policies: None				
Strategic alignment				
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>
			EI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, rationale

- 1.1 Uruguay is one of the most urbanized countries in Latin America and the Caribbean, with 95% of its 3.5 million inhabitants living in urban areas ([optional link 9](#) [1]).¹ The fact that the Uruguayan economy has grown continuously for the last 14 years is evidence of a stable macroeconomic environment.² Economic growth and the social policies implemented by the country have contributed to a considerable reduction in income poverty levels—from 33% of the population in 2006 to 8% in 2017 [2]. Inequality indicators have also been trending down, with the Gini coefficient falling from 0.46 to 0.38 between 2006 and 2017 [3]. Nonetheless, Uruguay continues to face quantity and quality deficits in the provision of urban services, which affects the most vulnerable and socially excluded population groups [4]. In territorial terms, these deficits manifest themselves mainly in informal settlements³ and semiformal areas,⁴ the inhabitants of which have limited access to the benefits of the city and lack secure land tenure, basic urban services, and green spaces. They are also usually situated in areas subject to environmental risks.
- 1.2 **Informal settlements in Uruguay.** The phenomenon of informal land occupation has remained relatively constant in population terms in recent years. Although the total number of settlements of this type edged up from 589 to 607 between 2011 and 2018,⁵ with new informal settlements exceeding those regulated in the period, the average size of the regulated settlements has been four times larger than the new ones. The 2011 Census found that 5% of Uruguay's urban population (165,000 inhabitants, 49,000 homes, 48,000 households) were living in informal settlements [5]. In physical terms, these settlements suffer from a lack of adequate basic infrastructure systems (drinking water, sanitation and storm drainage, deficient road networks, electrification, and public lighting), inadequate waste management and low environmental quality (Table 1.1). Although there is no reliable information on property ownership, the inhabitants of these settlements state that tenure is generally informal: only 2.8% of residents claim to have deeds of ownership of land and housing, 75.4% report insecure tenure (no lot title, despite having their own home or being in the process purchasing one), and the remaining 21.8% report even more precarious situations [6]. Nonetheless, these figures have not been officially reviewed. From the social standpoint, 80% of adults over the age of 25 have not completed high school, and fewer than 90% have access to effective health care—in a country where this is practically universal [7].

¹ [Optional link 9](#) contains the bibliographic references identified by the number in brackets [#].

² IDB country strategy with Uruguay 2016-2020 and National Institute of Statistics (INE). Average growth rate for the period: 4.2%.

³ According to the INE, an informal settlement is a grouping of more than 10 dwellings built on public or private land without authorization from the owner, under unregulated conditions, in noncompliance with urban development regulations. There are also shortcomings in some or all basic urban infrastructure services, and frequently also deficiencies or serious difficulties in access to social services.

⁴ Urban sector containing two or more informal settlements with shortcomings in some or all basic urban infrastructure services, and frequently also deficiencies or serious difficulties in access to social services.

⁵ Preliminary information provided by the project coordination unit (PCU).

From a labor perspective, the income of households in informal settlements is 65% of national average household income [8].

Table 1.1. Infrastructure in informal settlements (% of total settlements)

Indicators	%
Unpaved sidewalks	88
Unpaved roads	30
Vehicle access	80
Presence of garbage in the block	8
Curbed sidewalk	14
Presence of street lighting	28
Piped water inside the home (formal and informal)	96
Indoor sanitation facilities	85
Connection to sewer network	29

Source: Urban deficit data come from the 2011 Census, except for data on access to water, indoor sanitation, and connection to the sewer network, which come from the nationwide Ongoing Household Survey (ECH) 2017.

- 1.3 Initial surveys conducted in 13 settlements that were potentially eligible for targeting by the program⁶ identify deficits that are even greater than the national averages: 79% have access to piped drinking water (38% irregularly), 84% have access to sanitation facilities (only 22% have a connection to the sewer network), and 48% are connected to a formal electric power service. From a socio-urban perspective, the settlements suffer from a shortage of public and/or recreational spaces, community centers, and access to social services which diminishes community social capital; and they have few mutual support organizations or systems. The problems mentioned in this section are reflected in the priorities identified by the settlement inhabitants, as reported in Table 1.2.

Table 1.2. Ten elements mentioned as deficient in 13 informal settlements (inhabitants' perception) (% of total responses)

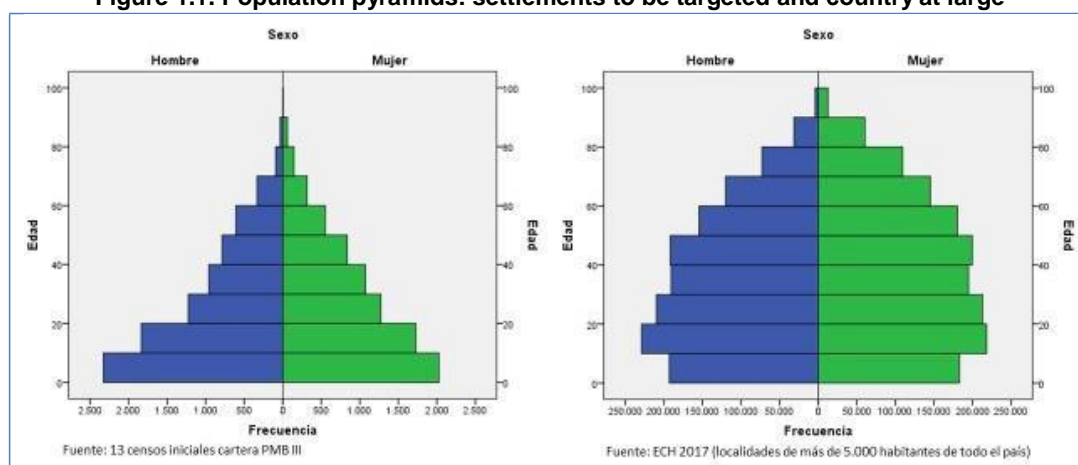
Main problems identified in the settlement (up to three problems could be mentioned)	%
State of the streets	63.8
Sewer service	56.5
Health services	50.4
Street lighting	50.1
Security	41.5
Rainwater runoff (storm drains)	39.7
Squares, parks, recreational spaces	34.5
Condition of pedestrian accesses (pathways)	31.1
Services for adolescents and/or youth	28.5
Neighborhood organization	19.6

Source: Initial censuses of 13 informal settlements.

⁶ The surveys, initial censuses conducted between 2012 and 2015, covered 5,345 households, representing 17,769 people.

- 1.4 The surveys conducted in these settlements also show that 84% of households have at least one unmet basic need [9] in terms of housing, services, education, overcrowding, comfort, or bathroom facilities. Similarly, 7.4% of those surveyed receive the Uruguay Social Card which the Ministry of Social Development issues to individuals living in a situation of extreme socioeconomic vulnerability (just 2% of the country). Another relevant issue is how the demographic composition of informal settlements differs from the rest of the country (see Figure 1.1). Young people account for a large share of settlement populations: 50% are under 20 years old and 65% are younger than 30, compared to the respective national averages of 28% and 43%, respectively. This difference has significant implications for social services.

Figure 1.1. Population pyramids: settlements to be targeted and country at large



- 1.5 **Gender considerations.** Gender disparities in poverty incidence have worsened in Uruguay: the “feminization of poverty” index rose from 100 in 2000 to 138 in 2013, and the equivalent index for indigence climbed from 103 to 164 in the same period. Both poverty and indigence are more highly feminized in Uruguay than in Latin America on average.⁷ Unemployment also displays a gender imbalance, with a gap of 3.3% nationwide.⁸ A comparison of employment rates between men and women at the national level reveals that the younger their children are, the wider the gap [10], owing to the time women spend doing unpaid work. According to the initial surveys conducted in six settlements in the semiformal area of La Paloma, in Montevideo, one mother out of every three had given birth to her first child as an adolescent, and 55% before the age of 19. Moreover, 40% of employed women work in domestic service, which is usually unstable, with lower wages and few benefits. Globally, women do not usually hold title to home ownership [11], which restricts their chances of obtaining credit or using it as an important economic

⁷ Poverty feminization index: number of poor/indigent women per 100 men; *Indicadores de Cohesión Territorial en Uruguay: Disparidades, Institucionalidad y Capital Social*, Office of Planning and Budget (OPP) 2015. The regional average values of the poverty and indigence feminization indexes rose in 2013 to 120 and 129, respectively.

⁸ In March 2018, the gender-specific unemployment rates rose to 7% among men and 10.3% among women (INE 2018).

resource [12]. Insecurity of tenure also increases their dependence on men, which may dissuade them from leaving violent relationships for fear of being left on the street [13]. This is relevant in Uruguay where 70% of women over 15 years of age nationwide have been victims of some type of gender violence [14].

- 1.6 **Climate change considerations.** The National Climate Change Policy ([PNCC, 2017](#)) identifies the need to integrate climate change mitigation and adaptation measures into the design, construction, management, and maintenance of housing, infrastructure, equipment, and the delivery of public services. This priority is reflected in the Nationally Determined Contribution ([NDC, 2017](#)), which defines specific adaptation actions through sustainable construction and relocation, together with mitigation actions in relation to street lighting and energy efficiency. The actions committed to in the NDCs include: (i) implementation of the Energy Efficiency Plan to 2024 (including the Montevideo pilot plan to improve energy efficiency in housing); and (ii) at least 3,500 to 6,000 households in flood-prone and/or polluted zones have been identified to be relocated through the National Relocation Plan (PNR) by 2025. This plan has already relocated or started the process of relocating over 2,500 people. Moreover, the Fourth National Communication [15] highlights actions to reduce climate change vulnerability undertaken by the Ministry of Housing, Land Management, and the Environment (MVOTMA) under the PNR.⁹ The previous CCLIP operations undertook 800 relocations, of which 150 were due to potential flooding.
- 1.7 **How informal settlements arise.** From a socioeconomic perspective, individuals will decide to move to an informal settlement when, given their limited resources, they perceive that the net benefits obtainable in the informal sector will outweigh those of remaining in formal housing [16]. The factors that affect this equation include the macroeconomic situation and its effect on disposable income, along with the price of formal housing (whether for purchase, rent and security deposits, or public or private loan installments).¹⁰ This price is influenced by supply issues (e.g. public or private housing projects for low and medium-low income segments, construction costs, deterioration of properties, availability of land for development, etc.); and by demand-side factors (eligibility and collateral for access to financing, changes in relative costs that alter disposable income, etc.). In the case of Uruguay, which has enjoyed 14 years of economic growth, the emergence of new informal settlements continues to reveal prevention failures and the persistence of unresolved problems.
- 1.8 **Degradation of central urban areas.** The creation of informal settlements is also influenced by the abandonment and degradation of central urbanized areas. The population of the department of Montevideo has been shrinking since the mid-1990s,¹¹ while the metropolitan area has grown. The central zones of Montevideo

⁹ "The PNR is of particular interest for addressing climate change and vulnerable communities, since it involves relocating populations settled in flood-prone or polluted zones, in order to reverse processes of social segregation and territorial fragmentation."

¹⁰ Other factors mentioned in the literature include: (i) cost of access to services; (ii) accessibility of social facilities; (iii) organized collective movements; (iv) proximity to sources of employment; (v) perception of the possibility of eviction; and (vi) nonexistence or lack of application of urban regulations; etc.

¹¹ According to the 1996, 2004, and 2011 censuses, the population of the department of Montevideo shrank successively, from 1,344,839 people in 1996 to 1,325,968 in 2004 and 1,318,108 in 2011. INE 2017 Yearbook.

that have all services (Ciudad Vieja, Cordón, Reducto), are those that have lost most people—nearly 15% of their population on average according to the most recent censuses [17]. The hollowing-out of the center is being driven by a combination of factors and dynamics, such as the emergence of new central areas, migration by the higher-income population to coastal areas to the east of the city and by low-income groups towards the periphery [18], which compound the degradation process still further.

- 1.9 **Efforts to repopulate central urban areas.** In 2014,¹² an analysis of 944 public housing projects¹³ showed that most of the social housing built by the State was located in outlying areas of Montevideo, which suffer from deficient access to urban services. Seeking to improve access to formal housing in central areas and prevent the degradation of the urban environment, in early 2017 the municipal government of Montevideo created the “Abandoned Property Pilot Program”¹⁴ with the aim of restoring abandoned and delinquent properties [19]¹⁵ in the city, to incorporate them into the real estate portfolio. According to a 2015 survey,¹⁶ 12% of abandoned properties in central areas of Montevideo were owned by the State. By 2017 the municipal government had prioritized 10 estates located in central areas (from over 100 identified) to conduct the first experiment and start the expropriation process. There is a framework agreement in place and a procedure defined with the National Government whereby, once the municipal government gains access to the property and determines its use, the MVOTMA allows the property to be used for housing. It is important to note the importance attached to strategies of this type by the ministers and top authorities of housing and urban planning in Latin American and Caribbean countries.¹⁷
- 1.10 This effort by the national and Montevideo departmental governments is framed by the National Guidelines for Territorial Planning and Sustainable Development,¹⁸ which provide as follows: (i) “the instruments of territorial organization and sustainable development [...] shall promote the recovery and adequate densification of urban areas with installed infrastructure, and social and community facilities, particularly those that are in the process of being emptied” (Article 19 - Residential heterogeneity and densification of central areas); and (ii) “The instruments of departmental territorial organization must identify and demarcate the areas mentioned in the foregoing article, in order to: (a) promote the location of housing plans and programs; (b) upgrade urban central areas using urban-architectural conservation criteria; and (c) use the purchase of land and buildings

¹² Municipio of Montevideo: Abandoned Property Report.

¹³ Of the total, 560 projects were executed by the MVOTMA, 100 by the municipal government and 284 by the mortgage lender Banco Hipotecario del Uruguay (BHU).

¹⁴ Resolution 335/17.

¹⁵ They display inadequate conservation, lack of care, have no legal or socially acceptable use and no one who can claim ownership of them.

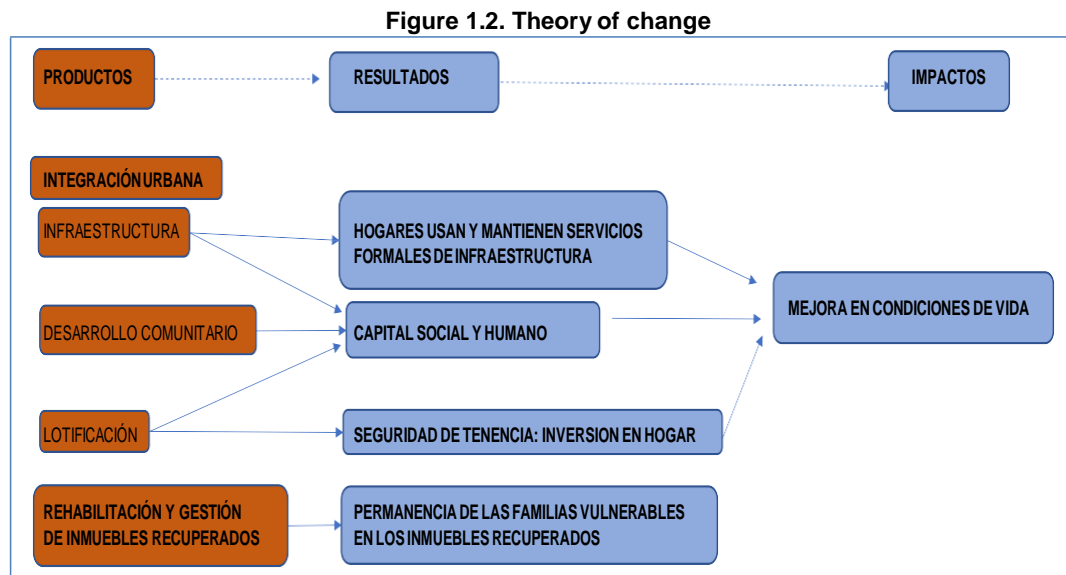
¹⁶ Report of the National Housing Agency 2015-2016.

¹⁷ “Rehabilitation programs for abandoned and/or unoccupied housing can be turned into appropriate solutions to address the quantitative housing deficit and comprehensive habitat improvement.” Challenges, dilemmas, and commitments of a common agenda. MINURVI Forum, 2016.

¹⁸ Envisaged in Law 18,308 (June 2008) and regulated by Law 19,525 (August 2017).

to create property portfolios, both nationally and departmentally” (Article 20 - Areas with vacant infrastructure).

- 1.11 **Rationale and methodology:** This program represents a continuation of 19 years of collaboration between the Bank and the Government of Uruguay, with the aim of improving living conditions for inhabitants of the country’s informal settlements and rundown areas. In this third operation under the CCLIP (UR-X1003), the program maintains its comprehensive approach, addressing both physical infrastructure needs and access to social facilities simultaneously. Figure 1.2 outlines the theory of change that underpins the program logic.



- 1.12 The comprehensive nature of the intervention is supported by the international evidence reported in the Bank’s Urban Development and Housing Framework Sector Document,¹⁹ which reflects the basic principles for the development of policies and programs in the sector, namely: (i) multisector interventions with territorial integrity, designed on the basis of the specific characteristics of a territory; (ii) sustainable and effective interventions, considering their short- and long-term impact on society, environment, public finances, and urban governance; and (iii) citizen-focused interventions, improving quality of life and inclusion in the productive activities of urban households, particularly the most vulnerable households. This sector framework document also states that neighborhood improvement programs have been evaluated positively in terms of access to and coverage of basic services and health and education services, satisfaction with living standards and security, and rise in property values, without attributing the causes thereof.

¹⁹ Several surveys are mentioned in the Urban Development and Housing Sector Framework Document (document GN-2732-6) [20 (a, b, c, d, e, f)].

- 1.13 Although there have been few rigorous evaluations of the effectiveness of comprehensive neighborhood improvement interventions such as those contained in this program, a number of partial impact evaluations have been conducted. In terms of the effectiveness of infrastructure interventions at the neighborhood level, a quasi-experimental evaluation of a neighborhood improvement program in Brazil (Soares and Soares, 2005) found that the works had a significant impact on the coverage of drinking water, garbage collection, and sewer services, and also showed that the poorest households were those that benefited the most. An experimental evaluation in Mexico (McIntosh, 2017) shows high urban service coverage rates, and a decline in crime in the targeted neighborhoods. A longitudinal study of a sewer program in Brazil, controlled for various factors (Moraes, 2003), showed that the program had an impact on the incidence of diarrhea in children under five years of age, which could also affect other variables such as school attendance. In terms of actions affecting housing,²⁰ an experimental study of a street paving project in Mexico (Gonzales-Navarro, 2010) reports significant impacts on the investment that households made in their homes, and also on satisfaction levels and real estate values. In a study of a program to upgrade makeshift housing in El Salvador and Uruguay, Galiani et al. (2011) find significant impacts in terms of personal satisfaction. To evaluate the improvement in property rights, Galiani and Schargrodsky (2010) use a natural experiment to measure the impact of a law granting property rights to the inhabitants of land occupied in Argentina in 1984 and found that the beneficiary families significantly increased investment in their homes. A quasi-experimental study in Peru of a national property titling program (Field, 2005) found that the rate of renovation of housing increased by 67% relative to the counterfactual situation. Lastly, on interventions on facilities and social services to improve human capital, there is evidence that the existence of safe public spaces [21], located near residential areas [22] whose use is promoted [23] is associated with an improvement in social interactions and an increase in social capital.²¹ Studies also show that living in an area without recreational spaces increases the chances of young people becoming involved in high-risk activities [24], and that the creation of sports programs and the restoration of soccer fields increases social capital among disadvantaged youth [25].
- 1.14 One of the key challenges to be addressed in this methodology for formalizing informal settlements through comprehensive approaches is the possibility that these programs will encourage informal urbanization, since they enhance the expected benefits of invading government-owned land (Abramo, 2003). In general, comprehensive urban infrastructure programs are remedial and do not directly address the causes of the problem, but instead seek to alleviate existing conditions and have to be combined with other policies aimed at preventing the establishment of settlements. The Neighborhood Improvement Program (PMB) in Uruguay aims

²⁰ The program produces housing to resettle the population owing to streets being built or location in an area of unavoidable risk. It also provides resources to provide bathroom and kitchen facilities in homes that do not have them.

²¹ In addition, Gibbs (1974) and Ijla (2012) explain that recreational spaces are crucial for fostering interactions between individuals. Kazmierczak (2013) finds that the presence of parks was decisive for the coexistence of different social classes and races. Fan et al. (2011) find that access to green areas in Chicago reduces stress and increases social capital.

to combine remedial actions with pilot actions that help improving the supply of, and demand for, affordable formal housing for vulnerable population groups, especially in areas with access to services.²² In particular, this new stage of the PMB will seek to generate a model that promotes the rehabilitation of properties that have fallen into disuse located in central areas of the city of Montevideo. It should be noted that the strategy is complementary to other programs that address the housing deficit through the formal market.²³

- 1.15 **Achievements of the PMB in Uruguay.** Since 1999, the Bank has been working with the country on programs to improve the quality of life among settlement inhabitants. The first program of this type, (loan 1186/OC-UR) the Informal Settlements Integration Program (PIAI), was approved in 1999. Subsequently, a CCLIP (UR-X1003), referred to as the PMB, was created in 2008, and its first individual operation (PMB I, loan 2052/OC-UR), was approved in the same year and is now fully executed. A second operation (PMB II, loan 3097/OC-UR) was approved in 2014 and now has over 50% of its funds disbursed. These programs have made significant progress in: (i) reducing gaps in access to urban and social services in 104 settlements (representing more than 11,000 households or 46,000 individual beneficiaries), with 72 projects with completed works; (ii) ensuring the integrity of their investments; (iii) strengthening the management capacity of the departmental governments (*Intendencias*) to program their physical and social investments, as well as coordination of the actions of different public agencies in the territory; and (iv) collaborating in the formulation of public policies to prevent new settlements being formed, strengthening the National Housing Bureau (DINAVI) and the MVOTMA.²⁴ The program has also contributed to gender equity by promoting joint man/woman titling or titling in the woman's name: as of December 2017, 74% of the 1,413 property titles issued had this status.
- 1.16 **Challenges and lessons learned.** Despite these achievements, there is still a large universe of settlements and semiformal areas to be addressed. Moreover, in this phase of the operation, the new projects are expected to pose more complex challenges, such as: (i) larger-scale settlements; (ii) greater presence of flood-prone and/or polluted areas; (iii) larger number of resettlements; (iv) more families

²² The sector framework document emphasizes location in areas with access to services: "Another serious flaw in affordable housing policies is that they still fail to adequately address location, which significantly affects a household's chances of breaking out of poverty (Litman, 2015). Mass low-income housing construction in peripheral areas creates a vicious cycle of social and urban decline with environmental damage (Newmark & Hass, 2015)." The "concentration of peripheral areas of poverty increases social segregation, adversely affects municipal budgets, and intensifies vehicle congestion (Fisher et al., 2009)."

²³ Housing policy in Uruguay is embodied in a variety of programs targeting different population centers in terms of their socioeconomic level. These policies range from building MVOTMA housing solutions for purchase or rent; loans for the purchase of used housing; housing solutions for liabilities; subsidies for the construction, purchase, and rental of housing (VIS, Rental Guarantee Fund (FGA), Housing Cooperatives, CVU); public home financing system; support for self-construction; Microcredit Program for Home Renovation (National Housing Agency (ANV), BHU); relocation and home improvement programs (PNR, Plan Juntos); Rural Housing Programs (Movement for the Eradication of Sub-standard Rural Housing (MEVIR), departmental government agreements); habitat improvement and urban planning (departmental government agreements, PMB) and regularization (PMB, extendable basic housing units (NBE)). See the MVOTMA [five-year housing plan 2015-2019](#).

²⁴ Bank projects 1186/OC-UR, UR-X1003, 2052/OC-UR, and 3097/OC-UR made it possible to pilot and subsequently internally finance housing policy instruments such as the FGA and lots with services.

living in extreme poverty; and (v) larger presence of neighborhoods currently associated with criminal activity. Some of the challenges that the program still faces remain unresolved, including: (i) finalizing titling processes for properties in the targeted neighborhoods; (ii) improving the approach to environmental issues in the targeted settlements; (iii) improving process management; and (iv) enhancing coordination between the program's actions and the departmental and municipal governments. In order to improve access to services and regularize settlements not yet addressed, the Uruguayan government requested Bank assistance to prepare a new CCLIP operation to meet these challenges. During preparation of this operation, an external evaluation of the previous phase of the program, which is still in execution, was contracted, to assess the effectiveness of the actions undertaken relative to the outcome indicators. This evaluation identified challenges and lessons learned from case studies, through a mixed strategy involving both quantitative and qualitative factors. Table 1.3 summarizes the key challenges and main lessons learned, and how they can be addressed in this operation.

Table 1.3. Main challenges and lessons learned

Lesson learned	Approach
1. Long time taken to formulate and execute projects, which impacts trust and participation by neighborhood residents	<p>Training for departmental governments on the Bank's fiduciary procedures.</p> <p>Include the PCU as a contractor for component I for MVOTMA-owned property with guaranteed participation by the departmental governments.</p> <p>Monitoring of times taken for approval of public services and the process for subdivision of land.</p> <p>Review strategies for implementation of investments, including works done in stages and works advanced for community action that help legitimize the process of formulating and executing the program in the neighborhood.</p> <p>Review bidding strategies in order to achieve greater participation by medium-sized-large enterprises in program bidding processes.</p>
2. Long time taken to obtain property deeds	<p>Contracting of special teams to perform the social task of providing information and support for the titling process.</p> <p>Agreement with the Association of Notaries of Uruguay to minimize titling costs.</p>
3. Need for a better approach to environmental issues in the settlements	<p>The hiring of specialized staff is part of the environmental requirements.</p> <p>Fine-tune the environmental requirements during the execution stage of the program and work with the departmental governments for the formal inclusion of the neighborhoods in their environmental actions after the works.</p>
4. Need to strengthen interagency and local coordination	<p>Joint training activities with the project stakeholders (PCU, departmental governments, municipios, services, other areas of central government, etc.).</p> <p>Increase the execution of comprehensive neighborhood strengthening projects in coordination with the municipios.</p>

- 1.17 **Alignment with the Bank and country strategy.** The program is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) with regard to the challenge of Social Inclusion and Equality, since it will work to reduce the housing deficit and expand access to urban services for all population segments, especially the most vulnerable. It is also aligned with the crosscutting themes of: (i) Gender Equity and Diversity, since it will improve women's well-being by providing them with access to infrastructure services and quality public services; (ii) Climate Change and Environmental Sustainability, through adaptation and mitigation actions, which represent 36.3% of the Bank's loan proceeds ([optional link 7](#)), thereby contributing to the IDB Group's goal of increasing lending to climate change projects to 30% by 2020; and (iii) Institutional Capacity and the Rule of Law, through actions to strengthen the departmental governments included in Component III. The operation contributes to the 2016-2019 Corporate Results Framework (document GN-2727-6) in terms of regional context indicators related to reducing poverty, reducing greenhouse gas emissions, and increasing equity and social inclusion.
- 1.18 The operation is also included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2) and is aligned with strategic objective II of the Bank's country strategy with Uruguay 2016-2020 (document GN-2836). The latter seeks to promote: (i) mechanisms to enhance the development of low-income housing and urban environments; (ii) improvement and revitalization of informal neighborhoods on an integrated basis, considering not only access to services such as water and sanitation but also the public environment and public spaces; (iii) exploring innovative avenues, such as experimentation with resilient housing; (iv) pursuit of integrated urban initiatives that lead to better use of existing infrastructure in other central areas of Montevideo or other cities. As described above, the operation is consistent with the Urban Development and Housing Sector Framework document (document GN-2732-6), whose lines of action include: (i) support for programs for the improvement of informal neighborhoods; (ii) the improvement of urban services and infrastructure; and (iii) the revitalization of degraded urban areas.
- 1.19 **Compliance with the Bank's Public Utilities Policy (document GN-2716-6).** The analysis performed ([optional link 5](#)) shows that the program satisfies the policy's financial sustainability and economic evaluation conditions and is consistent with its principles. To ensure the sustainability of the investment, the departmental governments (or the MVOTMA in the event of direct execution), will sign agreements with the service providers: (i) stating that the provider will be responsible for maintenance; (ii) guaranteeing the quality of service as defined in the existing regulatory standards; and (iii) specifying the rate to be charged to cover the operation, maintenance, and depreciation costs of the infrastructure constructed by this program. The providers participate from the initial design stage, providing their agreement for the works to be undertaken.
- 1.20 The public utilities to be provided after the intervention are: drinking water (OSE), sanitation (OSE outside the capital, municipal government in Montevideo), electricity (UTE), storm drainage, roads, and public lighting (departmental governments). The services are provided by companies and public institutions, whose financial sustainability is ensured. The informal settlements have a greater proportion of beneficiaries of low-income rates, subsidized by the rest of the users.

To ensure that users make safe and proper use of the service infrastructure, the program envisages: (i) actions related to education and civic responsibility, determined with community participation (rational use of water, keeping storm water out of systems to separate rainwater and wastewater, etc.); and (ii) technical support for the population in obtaining services and fulfilling responsibilities (payment for electricity, water, taxes, etc.). It should be noted that, in seeking a solution for low sanitation connectivity, in 2011, Law 18,840 was enacted, making sanitation connections compulsory. The law created various incentives to facilitate access to connections for low-income households. Due to the methodology used to address this issue and the specific characteristics of the program, the Neighborhood Improvement Program has the highest sanitation connection rates on new networks (over 90%).

B. Objectives, components, and cost

- 1.21 **Objective.** The third proposed operation continues to pursue the aim of the CCLIP and has the general objective of helping to improve living conditions for the inhabitants of informal settlements and rundown areas. Its specific objectives are to: (i) foster urban integration by providing formal basic infrastructure and adequate social and urban services, while guaranteeing secure property tenure and enhancing social capital, taking climate change issues into account; and (ii) provide affordable housing to low-income population groups, while restoring rundown urban spaces in Montevideo's historic downtown area. The program is structured in three components as described below.²⁵
- 1.22 **Component I – Neighborhood improvement (US\$78.7 million).** This component will finance the contracting of consulting services and the execution of physical works to strengthen the human and social capital of the community and its organizations, reduce basic infrastructure and equipment deficiencies, and give resident families regular property titles. Although it is a global multiple works loan, 14 projects have been identified in principle, to serve 36 settlements (including two semiformal areas) covering a total of 7,642 households, located in the departments of Montevideo, Canelones, Maldonado, Rivera, and Paysandú.
- a. **Subcomponent 1. Urban integration.** Works design and construction will be financed to: (i) expand or upgrade infrastructure and basic urban services; (ii) improve the local environment; (iii) reduce vulnerability among the population settled in hazard-prone areas; and (iv) provide or rehabilitate street furniture and equipment. The comprehensive actions to be taken will generally be executed in stages. Eligible investments include: (i) basic urban infrastructure networks (drinking water, sanitary sewer, storm drainage, paving of the road network, electrification, and street lighting); (ii) in the cases specified in the program Operating Regulations, a package of materials to facilitate individual connections for bathrooms and sanitation networks; (iii) construction, rehabilitation, or refurbishment of social infrastructure (community centers, day-care centers, health centers, and/or child and family care centers (CAIFs), etc.); (iv) family relocation or resettlement when necessary; and (v) works and actions undertaken with the citizens for environmental protection and/or recovery. The specific works in each

²⁵ Details of eligible expenses are provided in the program Operating Regulations.

settlement are specified in the urbanization plans that were drawn up during program preparation or execution.

- b. **Subcomponent 2. Legalization/regularization of the property.** This subcomponent will finance technical and legal assistance for the transfer of land ownership in the settlements targeted by the current program and by previous tranches of the CCLIP. Related expenses include the professional fees of lawyers and social teams, the cost of registration and other activities associated with the process of regularizing titles for resident families. The program will promote joint man/woman titling, or titling in the name of women.
- c. **Subcomponent 3. Community development.** This subcomponent will finance community and social development actions to support the implementation of urban integration projects. These actions aim to ensure effective participation by settlement residents and their organizations in all phases of the project cycle. They include: (i) participatory diagnostic assessments to identify vulnerabilities in specific population groups (older adults, children, youth, women, single mothers, and others); (ii) guidance and support for residents in their access to the various networks of social services provided in the country; (iii) guidance for the community on environmental and health education (e.g. use of sanitation facilities, maintenance of drains, garbage collection and disposal, reforestation), maintenance of housing and other items; and (iv) projects arising from neighborhood initiatives. The workshops and activities are defined according to the specific needs identified in each settlement, both at the diagnostic stage and during execution.

- 1.23 **Component II – Pilot project to recover degraded property in central areas with a social approach (US\$10 million).** This component will finance a pilot project to recover and restore disused and abandoned properties or lots owned by the State in central areas of Montevideo, in order to increase the supply of housing available for low-income housing programs in areas with access to quality services. If the pilot is successful, it is expected to contribute to the design of a public policy for urban regeneration in central areas with a social mix. The pilot will target²⁶ beneficiaries drawn from the first income quintile, who are prioritized by the MVOTMA's rental subsidy programs. The expected positive urban effects of the pilot include: (i) staunching the outflow of population from central areas of the city; (ii) discouraging informal activities, by enabling the establishment of new permanent residents and thus contributing to the proper functioning of public services and spaces; (iii) limiting levels of urban segregation; and (iv) revitalizing central areas. Component II will be refined during the first year of program execution, particularly on issues relating to mechanisms for accessing rental housing and the partners-operators needed to operate and maintain the housing units generated.

²⁶ Although the target population belongs to the first income quintile, an attempt will be made to maintain a mix in the social composition of the inhabitants of the properties. This will help prevent stigmatization and make the operation and its future replicability financially viable.

- 1.24 **Component III. Institutional strengthening (US\$6.4 million).** This component aims to build the capacities of the local governments participating in the program. It will finance the following: (i) technical assistance to strengthen the management of these departmental governments in processes to regularize settlements and prepare projects to be financed by the program as necessary; (ii) training activities for the local governments, the multidisciplinary technical teams, and staff of the PCU; and (iii) resources to increase operational capacity for program execution, including monitoring systems, observatories, and specific research on topics associated with informal settlements, and gender mainstreaming in the different stages of the program.
- 1.25 **Administration, evaluation, and monitoring (US\$4.9 million).** Financing will be provided for the PCU's operating expenses, including fees, administrative and monitoring expenses, support for procurement, and midterm, final, and impact evaluations. The program audit will also be financed under this heading.
- 1.26 **Costs.** The total cost of this third individual operation under the CCLIP is US\$100 million, of which US\$70 million will be financed by the Bank and US\$30 million will be provided as the nation's local contribution (see Table 1.4).

Table 1.4. Cost and financing (US\$ thousands)

Component	IDB	Counterpart	Total	%
I. Neighborhood improvement	55,764	22,925	78,689	79
II. Pilot project to recover degraded property in central areas with a social approach	7,917	2,083	10,000	10
III. Institutional strengthening	3,132	3,290	6,422	6
Administration, evaluation, and monitoring	3,187	1,702	4,889	5
Total	70,000	30,000	100,000	100

C. Key results indicators

- 1.27 The main outcomes expected from Component I on the settlements relate to formal use of the urban infrastructure generated (water, sanitation, electricity, use of neighborhood facilities and public spaces); improvement of social capital in the targeted neighborhoods as reflected in the perception of a better relationship between neighbors and a sense of security, and security of ownership of the property as shown by greater investment in home improvement. The impact indicators will be measured through the rise in property values (using a hedonic price approach) and the satisfaction reported by residents. For Component II, the outcome indicators include household conformity with the housing, as measured by six-month permanency rates; sustainability, as measured by arrears in the payment of rent and services. If the pilot project is successful, it is expected to help institutionalize the mechanism as a State policy. The indicators and their projected values are specified in detail in the Results Matrix.
- 1.28 **Economic viability and average value per lot targeted.** A cost-benefit analysis was performed on the projects in the representative sample (see [optional link 1](#)), based on a comparison of incremental costs and benefits, at economic prices, in

the with- and without-project situations. The benefits were quantified on the basis of hedonic price theory (Rosen, 1974; Freeman, 1974) to estimate the rise in property values resulting from the upgrading of attributes under the program.²⁷ The analysis reported an economic internal rate of return of 48.7% for the entire sample (over a 20-year horizon). The economic viability indicators of each project in the sample analyzed individually are also positive. A sensitivity analysis showed that the program remains economically viable in the face of a simultaneous 15% increase in the cost of the investment and a 15% reduction in real estate value appreciation. Based on these results, the cost-efficiency criterion that would ensure the economic profitability of the projects would be equivalent to US\$14,000 per informal dwelling benefited,²⁸ at market prices.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This is the third individual operation under the UR-X1003 CCLIP, which was strategically set up in 2008 to provide medium- and long-term support for execution of the neighborhood improvement program, based on an annual budgetary appropriation to enable gradual progress toward the development objectives. This operation fulfills the eligibility criteria for the CCLIP, as set out in document GN-2246-11: (i) it is included in the CCLIP's sectors and components; (ii) it is included in the country program; (iii) the executing agency remains an integral and sustainable part of the institution that manages the sector; and (iv) the executing agency is the same as in the previous operation (loan 3097/OC-UR) and has performed satisfactorily to date, is likely to achieve its development objectives, and has already disbursed 50% of its resources. The borrower and executing agency have satisfied their contractual conditions and fulfilled the Bank's policies on disbursements and procurement; and financial and operational reports have been prepared and presented in a timely manner, at an acceptable quality level.
- 2.2 The operation is a global multiple-works loan, since it finances physically similar, but mutually independent works, based on a representative sample of around 30% of the total project value, with clearly defined eligibility criteria for selecting the works described below. During preparation of this operation, a representative sample was chosen for the type of investments to be executed under Component I. These consisted of four comprehensive projects²⁹ prepared at the executive design level, representing a total of US\$30 million ([optional link 4](#)).
- 2.3 **Eligibility criteria.** The settlements or semiformal areas to be financed under the program will consist mainly of vulnerable population groups of low socioeconomic status that meet the following requirements: (i) they are identified and surveyed in the National Statistics Institute Census (INE, 2011); (ii) they consist of a minimum

²⁷ The analysis used a hedonic equation constructed especially for this program, based on a sample of 2,941 cases from 26 informal settlements in four Uruguayan cities. The analysis shows that property values in the targeted neighborhoods will rise from an average of US\$6,603 in the without-project situation, to US\$20,239 with the project.

²⁸ This limit will be adjusted by the construction cost index when each project is evaluated.

²⁹ San Antonio IV (Maldonado), Cauceglia Park and La Paloma (Montevideo), and Pando Norte (Canelones).

of 40 lots, 75% of which are occupied with housing; (iii) they are located in urban areas with more than 7,000 inhabitants; (iv) they do not occupy ecological reserve, environmental preservation, or archaeological heritage areas, or natural disaster risk zones, or areas that display irreversible levels of soil, water, or air pollution, or other environmental hazards; and (v) they are capable of being formalized in their current location. Project eligibility is determined by the PCU and requires the Bank's no objection.

- 2.4 **Disbursement schedule.** The expected execution period is five years as of the loan contract's effective date. The disbursement schedule is shown in Table 2.1.

Table 2.1. Disbursement schedule (US\$ million)

Financing source/Year	1	2	3	4	5	Total
IDB	5.1	11.4	21.2	20.1	12.2	70.0
Local	3.8	5.0	7.9	8.1	5.2	30.0
Annual total	8.9	16.4	29.1	28.2	17.4	100.0
Cumulative (%)	8.9	25.3	54.4	82.6	100.0	

B. Environmental and social risks

- 2.5 The program envisages positive social benefits and better living conditions for the populations of informal settlements and rundown areas. In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), the program has been classified as a Category "A" operation, owing to the social impacts caused by the involuntary resettlement of an estimated 840 vulnerable families. The resettlements will target overcrowded homes, with high poverty rates and health problems, located in flood-prone or storm runoff zones, and occupying public spaces or zones required for program works. The potential economic impacts arising from relocation of the resettled families will be mitigated through resettlement in the same neighborhood, together with social support actions for each person affected, and a formal property title. In the case of Component II, which will implement activities to recover abandoned properties and provide low-income housing in the center of Montevideo, no social impacts such as involuntary evictions and/or economic impacts are anticipated. These activities will target their benefits on families in the first income quintile.
- 2.6 The program's main environmental impacts and risks will occur in the construction stage (production of dust, noise, movement of machinery, occupational safety, waste, and relocations), which can be mitigated by measures identified and developed in the program's Environmental and Social Management Plan (ESMP), the Involuntary Resettlement Plan (PRI), the Environmental and Social Management Framework ([ESMF](#)), and the Involuntary Resettlement Framework (MRI). No economic displacement or additional poverty risks are envisaged.
- 2.7 The following documents were prepared during preparation: the Environmental and Social Impact Study ([ESIS](#)), the ESMP, and the PRI for the projects of the representative sample and the ESMF and MRI for the program's future projects. The documents were disclosed pursuant to the requirements of Operational

Policy OP-703 and the Access to Information Policy (Operational Policy OP-102).³⁰ In addition, the process of meaningful consultations for the sample projects, ensuring gender equality, resulted in the community's agreement with the program and the commitment to participate by neighborhood organizations, as set forth in notarized documents. The Bank will supervise execution of this operation in accordance with the corresponding operational safeguards.

- 2.8 Pursuant to Operational Policy OP-704, the program has been evaluated for natural disaster risks, and was rated type-1, moderate, since most of the neighborhoods in which this operation will be executed are flood-prone areas. The works executive designs will include hydraulic modeling to define the flood contour of the projects, to ensure that houses in the targeted neighborhoods are not exposed to flood hazard. Type-2 risk is not applicable to the program.
- 2.9 A risk workshop held during preparation of the operation identified an additional medium environmental and social sustainability risk, namely a potential failure to maintain the works and public spaces after program execution has ended, which would affect the community's expected use of them. The following mitigation measures were established: (i) periodic monitoring of proper implementation of the agreements with subexecuting agencies and service providers; and (ii) the holding of training sessions for residents to develop a sense of ownership and good use of the infrastructure and facilities.
- 2.10 The result of the environmental and social audit performed on previous CCLIP projects in June 2018, revealed the following: (i) disparities in access to urban and social services narrowed in 97 settlements (equivalent to 11,381 households); (ii) property ownership was regularized in 42 projects; (iii) the management and programming capacity of municipal and national agencies was strengthened; (iv) the formation of new informal settlements in the targeted areas was avoided; and (v) gender equity was promoted through joint woman/man titling or titling in the woman's name. The audit detected no environmental or social liabilities in the projects analyzed, and it confirmed both the PCU's effective technical capacity to manage the social issues and the need to contract an environmental specialist (according to the profile in Annex 2 of the ESIS) for adequate management and monitoring of this operation.
- 2.11 It is important to note that the national and local regulations, as well as sector-level execution, mainstream social and environmental issues as of the project design stage, to avoid negative impacts and maximize benefits. Moreover, the methodologies and instruments used scale the impacts and take due consideration of social and environmental factors throughout the project cycle, as required by the Bank's policies.

C. Fiduciary risks

- 2.12 The operation is generally considered to be of "low" fiduciary risk, given the cumulative institutional experience of the MVOTMA and the PCU in executing the previous CCLIP tranches. The risk workshop mentioned above identified additional

³⁰ Published on 25 June 2018 on the Bank's external website (<https://www.iadb.org/>) and on the PCU's website (http://pmb.mvotma.gub.uy/Estudio_de_Impacto_Ambiental_y_Social; and http://pmb.mvotma.gub.uy/Marco_de_Gestión_Ambiental_y_Social).

medium and high fiduciary and development risks, related to the timely availability of budgetary funding and the fact that there are few firms with the experience needed to work on the program. To mitigate this, it was agreed to intensify dialogue with the corresponding national authorities, submit budget requests or extensions in due time and form, increase planning efforts appropriately, improve the dissemination of processes, and adapt specifications and background requirements.

D. Other key program risks and issues

- 2.13 **Other program risks.** The aforementioned risk workshop identified an additional medium risk related to the possibility of encountering difficulties in implementing the management model for the housing units recovered under the Component II pilot project. To mitigate its effect, alternative management models were included in the design of the pilot. All mitigation actions will be monitored during execution. The possibility of adverse macroeconomic conditions also poses an exogenous macroeconomic and fiscal sustainability risk,³¹ which will be mitigated by continuously monitoring the macroeconomic situation throughout the operation's life.
- 2.14 **Financial and institutional sustainability.** The PCU does not have significant institutional, technical, or financial weaknesses. It has an adequate structure to manage the operation, with trained and experienced staff, as well as sufficient internal control procedures and mechanisms, which were consolidated in the execution of the previous individual operations under the CCLIP. The PMB I and PMB II audit reports always provided an unqualified opinion. The areas where weaknesses have been detected will be strengthened, mainly in environmental aspects. Current and projected financial resources show that program execution and the counterpart contribution are viable. Counterpart resources will come from the nation and participating departments. The subexecution agreements will be binding instruments specifying in detail the commitments of the aforementioned local contribution. The program's operational management is defined in the program Operating Regulations.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 The borrower will be the Eastern Republic of Uruguay; and the executing agency will be the MVOTMA, acting through the PCU. The latter will be responsible for program coordination and execution of all components. The departmental governments will act as subexecuting agencies. A special contractual condition for execution will require evidence that a subexecution agreement has been signed between the executing agency and the participating department before the start of any work under Components I and III, pursuant to the terms agreed upon with the Bank, in order to specify each party's responsibilities.

³¹ Given the new regional situation, there is a medium macroeconomic risk in terms of Uruguay's growth next year and inflation. Nonetheless, the country's Emerging Market Bond Index (EMBI) remains relatively low and stable (180 basis points in August 2018).

- 3.2 The [procurement plan](#) identifies the procurement to be executed under the policies set forth in documents GN-2349-9 and GN-2350-9 and specifies: (i) the contracts for the required works, goods, and consulting services; (ii) the methods proposed for contracting goods and selecting consultants; and (iii) the procedures applied by the Bank for procurement review. The borrower will update the procurement plan annually, or as agreed upon between the parties. Any proposed revision of the plan will be submitted to the Bank for approval.
- 3.3 No retroactive financing is envisaged under the loan. The MVOTMA will request recognition of expenditures to be charged against the local counterpart for up to US\$1.9 million. These expenses will have been incurred during the 18 months prior to the signing of the loan contract and subsequent to the operation's inclusion in programming, following contracting procedures analogous to those of the Bank.
- 3.4 The projects will be proposed by the departmental governments, according to the criteria and conditions described in the program Operating Regulations. **A special contractual condition precedent to the first loan disbursement will require the borrower, through the executing agency, to present evidence that the updated [program Operating Regulations](#) and respective annexes have taken effect, pursuant to the terms previously agreed upon with the Bank.** The updated Operating Regulations will specify the minimum structure required of the PCU for program execution and will revise the eligibility criteria to ensure targeting on the socioeconomically vulnerable population.
- 3.5 The PCU will coordinate and execute the various actions and interventions, and will coordinate communication and integration between the different entities involved in the program. It will serve as a direct interlocutor with the Bank, and will also be responsible for the operation's financial and accounting management. The PCU's main functions include: (i) technical and operational coordination of the program; (ii) scheduling of the interventions; (iii) approval and financing of the projects; and (iv) supervision of formulation, execution, and evaluation, etc. In cases where the settlements occupy land owned by the MVOTMA, the PCU may serve as the direct executor of the works of Component I. Of the total of 14 settlements to be targeted, four of them have this status.
- 3.6 In their role as subexecuting agencies of Component I, the departmental governments will: (i) contract consulting services for the design of the projects; (ii) formulate the projects for approval by the PCU and the Bank; (iii) contract and monitor the works and activities of each project; (iv) approve progress reports and work certificates; and (v) manage payments to the PCU. Works monitoring will cover not only the infrastructure but also the neighborhood development proposal, property titling, and subsequent works maintenance.
- 3.7 Municipal governments will also participate in the program, with functions relating to the social oversight of the works and participation as key stakeholders in the project design process, taking aspects of community facilities into account.
- 3.8 The current program Operating Regulations ([optional link 3](#)) describe the responsibilities and functions of each of the parties throughout the project cycle of the neighborhood improvement component. The execution arrangement for Component II will be defined during its final design. Component III will be executed by the PCU.

- 3.9 **Audits.** Each year during project execution, the PCU will submit the program's audited financial statements within 120 days after the fiscal year-end, under the terms specified by the Bank in its financial management policies. The program's closing audit reports will be submitted within 120 days following the final disbursement.
- 3.10 **Disbursements.** The loan proceeds will be disbursed in the form of advances of funds, with a frequency based on adequate financial programming and in line with other planning and financial instruments, such as the [annual work plan](#) and the procurement plan. The Bank may make new advances of funds, preferably on a semiannual basis, provided that at least 60% of the total funds previously advanced have been justified.

B. Summary of arrangements for monitoring results

- 3.11 The monitoring and evaluation plan ([MEP](#)) will monitor program execution relative to the progress targets and indicators specified in the Results Matrix. An evaluation will be made of processes and outcomes to provide rigorous evidence to validate the program's theory of change and to determine the success of the pilot. Component II, in particular, will be evaluated considering: (i) the existence of a nationwide public rental housing program (impact); and (ii) the permanence of households in assigned housing and the arrears rate after six months. An impact assessment will also be performed on component I, considering: (i) the change in the value of housing in areas close to those targeted; and (ii) the change in access to basic urban and social services associated with the intervention. The budget for the evaluation was agreed upon with the executing agencies and is included in the Monitoring and Evaluation Plan annex ([required link 2](#)).

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Property value within project area of influence (% change)* -Households benefitting from housing solutions (#)* -Households with new or upgraded access to drinking water (#)* -Households with new or upgraded access to sanitation (#)* -Roads built or upgraded (km)* -Households with wastewater treatment (#)* -Households protected from flood risk (#)* -Households with new or improved access to electricity supply (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2836	Equity and Social Inclusion through habitat improvement
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution	10.0	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	8.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	0.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	0.0	
5. Monitoring and Evaluation	8.6	
5.1 Monitoring Mechanisms	1.1	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	A	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control, Internal Audit. Procurement: Information System, parison, ontracting Individual Consultant, ational Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System, Monitoring and Evaluation National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The Neighborhood Improvement Program III is the third operation of a CCLIP for neighborhood improvement in Uruguay and its general objective is to contribute to the improvement of the living conditions of the population residing in irregular settlements and degraded areas. On the one hand, it has a component for the improvement of irregular settlements whose objective is to promote urban integration through the provision of formal basic infrastructure, adequate social and urban services, guaranteeing secure possession of property and improving social capital, with considerations of climate change. On the other hand, it includes the design and implementation of a pilot to provide affordable housing for low-income population, while degraded urbanized spaces are recovered in the historic center of Montevideo. The program hopes to benefit 7,642 households that live in slums with the first component and 120 families through the provision of affordable housing. The vertical logic presented in the POD is consistent, covering the activities, products, results and impacts. The diagnosis presents the main problems that the project must address in the settlements, although it recognizes that it is a remedial program that does not address the ultimate causes of the formation of these settlements. Nonetheless, it presents evidence of rigorous impact evaluations of similar interventions with positive impacts in the short term.

The results matrix includes indicators of the main outputs, results and impacts of the program and these comply with the SMART criteria, including the initial values and goals or a plausible plan for their collection at the time of the baseline. However, the financial costs associated with each of the products have not been defined. The impact indicators associated with the first component include the price differential of dwellings in the vicinity of settlements treated with respect to dwellings in untreated settlements, the price differential of dwellings in settlements treated before and after, the perception of neighbors on their settlement and, for the second component, the existence of a public housing program for rent at the national level. The result indicators include the regularized intra-household use of water, sanitation, electricity, the use of neighborhood facilities and public spaces, home improvements, the presence of durable assets, the perception of the relationship between neighbors, the security of the neighborhood, permanence in the homes enabled by the program of recovery of degraded real estate and delinquency in the payment. As well as indicators of gender and climate change.

The executing agency is the Ministry of Housing, Territorial Planning and Environment (MVOTMA) through the PCU which will be responsible for the coordination of the program and the execution of all the components. Monitoring and evaluation activities have been planned and budgeted. The program presents an economic analysis that shows the economic viability of the project, although some technical aspects must be clarified and there is no clear link with some of the goals of the results matrix. There will be an evaluation of processes and results. Also, an impact evaluation will be conducted, which will measure the impact of component I on the change in the value of housing in areas close to those intervened as an indicator of improvement in the living conditions of the settlements and their integration into the formal city.

RESULTS MATRIX¹

Project objective:	The third proposed operation continues to pursue the aim of the CCLIP and has the general objective of helping to improve living conditions for the inhabitants of informal settlements and rundown areas. Its specific objectives are to: (i) foster urban integration by providing formal basic infrastructure and adequate social and urban services, while guaranteeing secure property tenure and enhancing social capital, taking climate change issues into account; and (ii) provide affordable housing to low-income population groups, while restoring rundown urban spaces in Montevideo's historic downtown area.
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Impact indicator	Unit of measure	Baseline	Baseline year	End of project	Comments/Mean of verification
Differential in the logarithm of the estimated average price per square meter between dwellings in the vicinity of settlements targeted by the program and those not targeted	%	0	2018	6	Program impact assessment (Monitoring and Evaluation Plan – MEP).
Differential in the logarithm of the before and after average sale price of dwellings in the targeted settlements	%	0	2018	20	Startup and closure censuses.
Households that consider the neighborhood a good place to live	%	59	2018	67	Questionnaire of the startup and closure census.
Existence of a nationwide public rental housing program	Program	0	2018	1	The objective is to show whether the pilot project was taken into account to scale up the initiative. The rationale of the pilot is to trial a new form of access to housing for low-income sectors, on a small scale and under careful scrutiny, testing the ability of the State to execute and, in particular, to manage the system.

¹ Each indicator is defined, and the scope of the targets are specified, in the detailed version of the Results Matrix contained in the [MEP](#).

Impact indicator	Unit of measure	Baseline	Baseline year	End of project	Comments/Mean of verification
Evaluability objective 1. Urban integration: basic infrastructure, urban and social facilities taking climate change considerations into account					
Proportion of dwellings that obtain water for drinking and cooking from the general network, piped into the home as a regular service provided by the State Water and Sanitation Company (OSE), relative to the total number of homes registered in the targeted settlements	%	55	2018	81	Surveys at the start and end of the program (questions - section 2. HOUSING DATA 12,13, and 14 with response code = 1).
Proportion of homes with a formal indoor connection to the sewer service	%	20	2018	95	Surveys at the start and end of the program (questions - section 2. HOUSING DATA 18, 19 and 20 with response code = 1).
Proportion of homes that have a formal connection to the electricity service provided by the State electric power company (UTE), relative to the total number of number of dwellings registered in the targeted settlements	%	43	2018	88	Survey at the start and end of the program (question - section 2. HOUSING DATA 17 = 1).
Proportion of households in the settlements that report having used at least one of the community facilities built by the program at least once in the last month	%	0	2018	30	Survey for closing evaluation.
Proportion of households in the settlements that report having used at least one of the public spaces built by the program at least once in the last month	%	0	2018	30	Survey for closing evaluation.

Number of mitigation and adaptation measures reported in the Nationally Determined Contribution that the executing agency will report to the Climate Change Bureau of the Ministry of Housing, Land Management, and the Environment (MVOTMA)	Number of mitigation measures	0	2018	10	Climate change accounting (Optional link 7)
Evaluability objective 2. Guarantee of secure tenure					
Proportion of households that report having made modifications or improvements to their home or land (not financed by any program) in the last year	%	45	2018	55	Baseline startup survey of the sample and closing survey for the final outcome.
Proportion of homes that report possession of a refrigerator and water heater	%	51	2018	81	Sample survey for the baseline, and closing survey for the final target.
Evaluability objective 3. Improvement of social capital					
Proportion of households who say that relationships between neighbors in the settlement are good or very good	%	64	2018	78	Initial and final surveys of the settlements.
Proportion of households who say that the neighborhood is safe or very safe	%	27	2018	30.78	Initial and final surveys of the settlements.
Proportion of women who say that the neighborhood is safe or very safe, relative to the total number of women respondents	%	n/a*	2018	30.78	Initial and final surveys of the settlements. *The information is expected to be obtained in the startup surveys of the settlements to be targeted.

Evaluability objective 4. Prevention of the formation of new settlements with a social approach					
Proportion of households living in the program homes after six months, relative to the total number of households assigned a home	%	0	2018	100	Evaluation of program processes based on [source]
Rent arrears rate after six months, relative to the total number of households to which a home was provided	%	0	2018	10%	Evaluation of program processes based on data from the National Housing Bureau (DINAVI) Rental Guarantee Fund.

Output indicators	Unit	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments/Mean of verification
Component I. Neighborhood improvement									
Number of comprehensive draft projects approved	Number of draft projects	0	0	0	0	2	0	2	The draft projects ² are approved by the community, but the "technical team" will ensure that the plans are adapted to the neighborhood's needs and are, therefore, approved. Program monitoring reports (PMRs)
Number of executive designs produced and approved	Number of executive designs	0	0	0	0	0	2	2	PMRs
Number of water connections to the lot completed	Number of connections	0	0	488	1,338	1,959	3,092	6,877	PMRs
Number of sanitary sewer connections made on the property	Number of connections	0	0	488	1,338	1,959	3,092	6,877	PMRs
Linear meters of sanitation network installed	Meters	0	0	2,578	12,117	9,061	26,059	49,815	PMRs
Packages of materials to facilitate individual connections for bathrooms and sanitation networks delivered to the dwellings	Number	0	0	24	67	98	155	344	PMRs

² The draft projects and executive designs of the other neighborhoods will be financed from the previous stage.

Output indicators	Unit	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments/Mean of verification
Linear meters of roads built (including paving, storm drainage, and street lighting)	Meters	0		2,578	12,117	9,061	26,059	49,815	PMRs
Lots with electricity connections installed	Number of lots	0	0	488	1,338	1,959	3,092	6,877	PMRs
Dwellings connected to the formal electricity grid	Number of homes	0	-	49	134	196	309	688	PMRs
Social equipment actions completed (construction, rehabilitation, or conditioning)	Number of interventions	0	0	1	3	5	5	14	PMRs Eligible expenses are listed in the program Operating Regulations.
Homes built (for relocation of families)	Number of homes	0	0	41	138	360	451	990	Project works completion reports
Works undertaken for environmental protection, and/or recovery	Number of works	0	0	1	3	5	5	14	PMRs
Titles delivered to lots belonging to the Ministry	Number of titles	0	0	0	41	95	0	136	PMRs
Titles awarded to women or shared with their partner	Number of titles	0	0	0	59	67	0	126	PMRs
Subdivisions registered in the National Cadaster Bureau (for projects on land owned by the departmental governments)	Number of subdivisions	0	0	0	0	0	2	2	Information provided by departmental governments.
Social workers hired for 12 months a year	Number of contracts	0	8	8	8	8	8	8	PMRs
Neighborhood initiative funds created	Number of funds approved	0	5	3	3	3	0	14	PMRs. The program is responsible for the creation and approval of the funds.
Component II. Pilot project to recover degraded buildings in central areas with a social approach									
Number of units rented per year	Number of units	0	0	0	0	60	60	120	PMRs

Output indicators	Unit	Base	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Comments/Mean of verification
Component III. Institutional strengthening									
Number of training workshops held in the execution unit	Number of workshops	0	2	2	2	2	2	10	Program Administrative Record (PAR)
Executing agency staff trained on gender issues	Staff	0	45	0	0	0	0	45	PAR
Number of technicians hired	Number of contracts	0	65	65	65	65	65	65	PAR
Website redesigned and displaying basic information for each project	Number of websites	0	1	0	0	0	0	1	http://pmb.mvotma.gub.uy/

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Uruguay
Project number: UR-L1146
Name: Neighborhood Improvement Program III
Executing agency: Ministry of Housing, Land Management, and the Environment (MVOTMA)
Prepared by: Emilie Chapuis and Abel Cuba

I. THE COUNTRY'S FIDUCIARY CONTEXT

- 1.1 The fiduciary agreements and requirements established for this program are based on the Country Financial Accountability Assessment (CFAA) for Uruguay, performed in 2005, supported by knowledge of the executing agency, which is the Ministry of Housing, Land Management, and the Environment (MVOTMA), and the Program Coordination Unit (PCU), which have been responsible for loans 1186/OC-UR (Informal Settlements Integration Program), 2052/OC-UR (Neighborhood Improvement Program (PMB) I) and 3097/OC-UR (PMB II), currently in execution.
- 1.2 Fiduciary risk in Uruguay is considered low and the chance of public or donor funds being used for unauthorized purposes is small. In general, public financial management in Uruguay is considered responsible and transparent.
- 1.3 This program constitutes the third tranche under the CCLIP (UR-X1003), which has the general objective of helping to improve living conditions for the inhabitants of informal settlements and rundown areas. The total cost is US\$100 million (US\$70 million in Bank financing with a local counterpart of US\$30 million). The borrower for this operation will be the Eastern Republic of Uruguay, and the executing agency will be the MVOTMA, acting through the PCU, which has an adequate structure and organization.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The MVOTMA was created under Law 16,112 of 30 May 1990, which also defined its authority and established it as the lead sector entity responsible for formulating public policies related to the program's objectives. Program execution will be in the hands of the PCU, reporting to the National Housing Bureau (DINAVI). Having served as executing agency in previous Bank-financed projects, the PCU has demonstrated sufficient capacity to manage this operation, which is strengthened by maintaining the same organizational structure and using an execution mechanism similar to the one used in the second neighborhood improvement program (PMB II). The key considerations are:

- a. The PCU has successfully executed loans 1186/OC-UR and 2052/OC-UR and is currently executing loan 3097/OC-UR.
- b. It has solid previous experience in the area of procurement under Bank regulations, and it has performed adequately under both review modalities (ex ante and ex post).
- c. Its financial management processes and general internal control environment are deemed sound; and audit reports and financial visits historically have contained no reservations or observations raising major concerns.
- d. In terms of financial management, the Project Risk Management (PRM) exercise considered the adequacy of the budgetary appropriation allocated to the program, for which mitigation measures are provided.
- e. The PRM exercise detected medium and high risks in procurement processes, owing to a relative shortage of construction firms and consultants with adequate experience to work on the program. Nonetheless, the PCU has experience in executing similar activities in a similar context, and mitigation measures have been proposed.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The fiduciary risk profile of the operation is rated **low**. For the specific situation of the shortage of firms with experience to work on the program, mitigation actions have been proposed, such as adequate planning and coordination with the construction industry and consulting firms. The risk to timely availability of budgetary funding will be mitigated through actions to intensify dialogue with the corresponding national authorities and the processing of budget requests or extensions in due time and form.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 The following factors should be considered in the special provisions:
- a. Exchange rate: The conversion from local currency and the corresponding accounting in dollars will apply the “pesification” criterion, i.e. the exchange rate used to convert the funds disbursed.
 - b. Financial statements will be submitted within 120 days after each fiscal year-end and within 120 days following the date of the final disbursement. These must be audited by the supreme audit institution or an independent firm acceptable to the Bank.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The procurement policies applicable to this loan are those set out in documents GN-2349-9 and GN-2350-9.

A. Procurement execution

- 5.2 The procurement plan for the first 18 months will be processed through the procurement plan execution system (SEPA) before any procurement processes begin. The procurement plan will be updated by the PCU at least once every year.
- 5.3 The relevance of the expenditure, i.e. terms of reference, technical specifications, and budget, is the Project Team Leader's responsibility and always requires no objection prior to the start of the procurement process, under his/her operational criteria.
- 5.4 **Procurement of works, goods, and nonconsulting services.**¹ Contracts generated and subject to international competitive bidding (ICB) will be executed using the Standard Bidding Documents (SBDs) issued by the Bank. Contracts subject to national competitive bidding (NCB) will use bidding documents agreed upon between the executing agency and the Bank.
- a. Without prejudice to the relevant Bank policies, technically simple inputs and low cost services may be procured using single-source selection, up to a maximum of US\$5,000 or its equivalent.
 - b. Procurement of information technology (IT) systems: No need for specific advisory services from within the Bank or elsewhere is anticipated at this time.
- 5.5 Selection and contracting of consulting services
- a. **Consulting firms** will be selected and contracted pursuant to the relevant Bank policies. Procurement requiring international advertising (cost in excess of US\$200,000) will be subject to ex ante review.
 - b. **Selection of individual consultants.**² The individual consultants who staff this project's PCU may be the same as for loan 3097/OC-UR, thereby taking advantage of the capacities developed during the previous projects. In this case they will be contracted directly, and their costs charged to administration. Single-source selection will also be used for certain individual consultants contracted in the previous operation under the CCLIP, as identified in the procurement plan. Contracting is also expected to be channeled through the services of the United Nations Development Programme (UNDP), under the terms of the current agreement.
 - c. **Training.** If required, selection and contracting will be conducted using the appropriate competitive methods.
- 5.6 **Advance procurement/retroactive financing:** No retroactive financing is envisaged for this operation. The MVOTMA will evaluate the need to request recognition of expenditures to be charged against the local counterpart for projects under this operation to the extent that contracting procedures analogous to those of the Bank have been respected and such expenses have been incurred during the 18 months prior to the signing of the loan contract.

¹ Policies for the Procurement of Works and Goods financed by the Inter-American Development Bank (document [GN-2349-9](#)) paragraph 1.1: Nonconsulting services are treated as goods.

² Pursuant to Section V of the Bank's Policies (document GN-2350-9), a shortlist is not required and the standard request for proposals is not used.

1. Threshold amounts for bidding processes

Threshold amounts for Uruguay
(US\$ thousand)

Works			Goods ³			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International advertising	Shortlist 100% national
≥ 3,000	250-3,000	≤ 250	≥ 250	50-250	≤ 50	≥ 200	< 200

Thresholds for ex post review
(US\$ thousand)

Works	Goods and nonconsulting services	Consulting firms and individual consultants
<ul style="list-style-type: none"> Shopping up to US\$250 NCB up to US\$3,000 	<ul style="list-style-type: none"> Shopping up to US\$50 NCB up to US\$250 	<ul style="list-style-type: none"> Consulting firms subject to quality- and cost-based selection (QCBS) for up to US\$200 (NCB) Individual consultants for up to US\$60 per contract

- 5.7 **Main procurement processes.** Procurement processes for the first 18 months are listed in the procurement plan and do not involve technical complexity or procedures that warrant special attention or provisions.
- 5.8 **Procurement supervision.** The review method will initially be ex post; but this may be altered by agreement, with any such changes being recorded in the procurement plan. All procurements involving ICB and consulting services in excess of US\$200,000 will be subject to ex ante review. Ex post review reports will involve a limited number of physical inspection visits.⁴ Given the low risk posed by the executing agency, these visits will be replaced by checking the goods and works delivery documents during the ex post reviews. Otherwise physical verification will be necessary.

VI. FINANCIAL MANAGEMENT

A. Programming and budget

- 6.1 The MVOTMA sends its budget proposal to the Ministry of Economy and Finance (MEF) for inclusion in the draft consolidated national budget. The Ministry then forwards it for consideration by the Office of the President, after which it is sent to the legislature for analysis and constitutional approval.
- 6.2 The MVOTMA will program and formulate the budget based on the annual work plan (AWP), which is based on the multiyear execution plan (PEP). The statement of committed local counterpart funding will be reported by the executing agency annually.

³ Includes nonconsulting services.

⁴ The inspection confirms the existence of the items procured, but leaves the verification of quality and compliance with specifications to the sector specialist.

1. Accounting and information systems

- 6.3 The program will maintain its accounts in the new SPI accounting module, which is lined to the Integrated Financial Information System (SIIF). Budgetary appropriations are allocated and executed through the SIIF of the General Accounting Office of the Nation (CGN); and the commitments and payments related to the project will follow CGN procedures.
- 6.4 The project's financial statements will be issued periodically, in accordance with generally accepted accounting standards; and they will be audited each year by an independent audit firm. The following financial statements will be presented: (i) statement of cash received and disbursements made; (ii) statement of cumulative investments; (iii) statement of assets and liabilities; and (iv) explanatory notes to the financial statements.

2. Disbursements and cash flow

- 6.5 For the execution of program funds, a special registered account will be opened at the Central Bank of Uruguay and an operating bank account at Banco de la República Oriental del Uruguay in order to manage program funds.
- 6.6 Disbursements will be made in the form of advances of funds based on the program's projected liquidity needs, which must also be supported by the AWP and procurement plan. Preferably, these advances will be made semiannually, once at least 60% of amounts previously advanced have been accounted for. The disbursement request will be accompanied by the financial planning and funds reconciliation. Disbursements will be processed using the online (e-disbursement) mechanism. It has been agreed that payments made in local or other currencies will be converted into U.S. dollars using the "pesification" exchange rate.
- 6.7 As departmental governments will participate in the project as subexecuting agencies, the MVOTMA may transfer loan proceeds based on an execution plan, which should be continuously monitored against the physical verification of works that each departmental government reports to the PCU. Transfers of funds to the departmental governments may be justified to the Bank as soon as they are made.

3. Internal control and audit

- 6.8 Pursuant to the provisions of the Amended Code of Accounting and Financial Administration (TOCAF), the Audit Office of the Republic (TCR) will preventively review all expenses related to program execution. A preventive review of the expense is also performed by CGN auditors. In addition, under current legislation, the PCU is subject to oversight by the National Internal Audit Office.

4. External control and reports

- 6.9 The external audit of the projects will be done by the supreme audit institution⁵ or by a private firm acceptable to the Bank, contracted under terms of reference previously approved by the Bank.

⁵ In Uruguay this is the TCR.

- 6.10 The financial audit reports will be delivered annually by 30 April of the following year; the final report must be submitted within 120 days following the date of the final disbursement. The cost of the audit services may be financed from program resources.

5. Financial supervision plan

- 6.11 The financial supervision plan take the following into account:
- a. Participation in the start-up workshop identified by the project team, making a brief presentation on key fiduciary considerations.
 - b. Review of financial conditions precedent (financial management and internal control system, contracting of the external audit, statement of budgetary appropriations).
 - c. Review of the AWP and initial financial plan prepared by the execution unit, to support the first advance of funds to be requested once the program has been declared eligible. Thereafter, updates and their consistency with the procurement plan will be reviewed during execution.
 - d. Financial visits during project execution, where financial, control, and file management consideration will be evaluated. Disbursements will be subject to ex post review.

6. Execution mechanism

- 6.12 Given the scope of the program, departmental governments will participate as subexecuting agencies, with relations and coordination arrangements to be specified in subexecution agreements. Execution is also expected to be supported by a management body, focusing mainly on operating expenses and consulting services. In both cases, operational management will be defined and regulated in the [program Operating Regulations](#).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-____/18

Uruguay. Loan_____/OC-UR to the Eastern Republic of Uruguay. Neighborhood Improvement Program III. Third Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) UR-X1003
Neighborhood Improvement 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 the Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Neighborhood Improvement Program III. Third Individual Operation under the Conditional Credit Line for Investment Projects (CCLIP) UR-X1003 - Neighborhood Improvement Program, approved on 12 of November 2008 by Resolution DE-143/08. Such financing will be in the amount of up to US\$70,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on_____2018)

LEG/SGO/CSC/EZSHARE-1028536987-9660
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