Board of Executive Directors
For consideration
On or after 2 July 2019

PR-4701
18 June 2019
Original: Spanish
Public
Simultaneous Disclosure

To:	The Executive Directors
From:	The Secretary
Subject:	Uruguay. Proposal for Conditional Credit Line for Investment Projects (CCLIP) for the “Program to Improve Road Corridors for Agroindustry and Forestry” and first individual loan under the line of credit for the “Program to Improve Road Corridors for Agroindustry and Forestry”

Basic Information:

Loan type .... Conditional Credit Line for Investment Projects (CCLIP) and Global Multiple Works Operation (GOM)

Borrower .... *Corporación Nacional para el Desarrollo (CND)*

Line of Credit

Amount .... up to US$200,000,000

Source .... Ordinary Capital

Individual Loan

Amount .... up to US$70,000,000

Source .... Ordinary Capital

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Remarks: As established in document GN-1838-3, “Report of the Working Group of the Board of Executive Directors of the Inter-American Development Bank on Streamlining Approval Procedures for Sovereign Guaranteed Operations. Revised version”, approved on 21 June 2018, Conditional Credit Lines for Investment Projects and the first operation under the line are considered by the Board of Executive Directors by Standard Procedure.

Reference: GN-1838-3(6/18), DR-398-18(8/18), GN-2246-1(7/03), DE-58/03, GN-2246-4(12/06), DE-10/07, GN-2246-7(11/07), DE-164/07, GN-2246-9(9/16), DE-86/16, GN-2564-3(12/11), DE-225/11, GN-2869-1(11/16), DE-146/16, GN-2869-3(8/17)

PUBLIC
SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URUGUAY

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROGRAM TO IMPROVE ROAD CORRIDORS FOR AGROINDUSTRY AND FORESTRY

(UR-O1155)

FIRST INDIVIDUAL OPERATION UNDER THE CCLIP FOR THE PROGRAM TO IMPROVE ROAD CORRIDORS FOR AGROINDUSTRY AND FORESTRY

(UR-L1153)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Andrés Pereyra (TSP/CUR), Project Team Leader; Julieta Abad (TSP/CAR), Alternate Project Team Leader; Jean Pol Armijos (TSP/CEC); Silvia Barrantes and Tania Alonso (INE/TSP); Abel Cuba and Emilie Chapuis (FMP/CUR); Rodolfo Graham (LEG/SGO); and Natasha Kate Ward (VPS/ESG).

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1. Multiyear execution plan and annual work plan
2. Monitoring and evaluation plan
3. Environmental and social management report (ESMR)
4. Procurement plan

Optional

1. Economic evaluation
2. Logistics of Uruguay's four main agroindustrial chains
3. Uruguay's agroindustrial logistics, the forestry chain
4. Uruguay's agroindustrial logistics, the grains chain
5. Environmental and Social Analysis
6. Environmental and Social Management Plan, Yí River Project
7. Environmental and Social Management Plan, Route 43 Project
8. Environmental and Social Management Framework (ESMF)
9. Safeguards Policy Filter and Safeguard Screening Form

ABBREVIATIONS

AWP	Annual work plan
BCU	Central Bank of Uruguay
BROU	Banco de la República Oriental del Uruguay
CCLIP	Conditional Credit Line for Investment Projects
CND	Corporación Nacional para el Desarrollo [National Development Corporation]
CVU	Corporación Vial del Uruguay S.A.
DNV	Dirección Nacional de Vialidad [National Highway Department]
EIRR	Economic internal rate of return
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESMR	Environmental and Social Management Report
GDP	Gross domestic product
HDM-4	Highway Development and Management
ICAS	Institutional Capacity Assessment System
MEF	Ministry of Economy and Finance
MTOP	Ministry of Transportation and Public Works
OII	Office of Institutional Integrity
PCI	Pavement condition index
PDL	Performance-driven loan
PPP	Public-private partnership
RMC	Rehabilitation and maintenance contract
UPM	UPM PULP OY
VAT	Value-added tax
VOC	Vehicle operating costs

PROJECT SUMMARY

URUGUAY

CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP) FOR THE PROGRAM TO IMPROVE ROAD CORRIDORS FOR AGROINDUSTRY AND FORESTRY

(UR-O1155)

FIRST INDIVIDUAL OPERATION UNDER THE CCLIP FOR THE PROGRAM TO IMPROVE ROAD CORRIDORS FOR AGROINDUSTRY AND FORESTRY

(UR-L1153)

<table>
<tr><th colspan="6">Financial Terms and Conditions</th></tr>
<tr><td colspan="4">Borrower:</td><td colspan="2">Flexible Financing Facility[a]</td></tr>
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<tr><td colspan="4">Eastern Republic of Uruguay</td></tr>
<tr><td>Source</td><td>CCLIP (US$)</td><td>First operation (US$)</td><td>%</td><td>Interest rate:</td><td>LIBOR-based</td></tr>
<tr><td rowspan="2">IDB (Ordinary Capital):</td><td rowspan="2">200,000,000</td><td rowspan="2">70,000,000</td><td rowspan="2">84</td><td>Credit fee:</td><td>[c]</td></tr>
<tr><td>Inspection and supervision fee:</td><td>[c]</td></tr>
<tr><td>Local:</td><td>38,500,000</td><td>13,500,000</td><td>16</td><td>Weighted average life:</td><td>9.75 years</td></tr>
<tr><td>Total:</td><td>238,500,000</td><td>83,500,000</td><td>100</td><td>Approval currency:</td><td>U.S. dollars</td></tr>
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Project at a Glance

Objective of the CCLIP: To support improved competitiveness through the construction, improvement, and rehabilitation of roadways associated with forestry and agroindustrial vehicular flows.

Objective of the first operation under the CCLIP: To increase the competitiveness of the forestry and agroindustrial sectors by building and improving secondary highways and departmental roads that facilitate interconnectivity. The specific objective of the program is to reduce the vehicle operating costs (VOC) of freight transportation.

Special contractual conditions precedent to the first loan disbursement: A special contractual condition precedent to the first disbursement will be the signature and entry into effect of a specific agreement between the Ministry of Transportation and Public Works (MTOP), the Ministry of Economy and Finance (MEF), the CND, and the CVU, to include, among other things, the following: (i) the parties' commitment to fulfill the obligations set forth in the signed loan agreement between the borrower and the Bank; (ii) the CND's commitment to transfer the loan proceeds to the CVU; (iii) the CVU's commitment to provide the local contribution resources committed by the CND; (iv) the CVU's commitment to use the proceeds from the loan and the local contribution in accordance with the terms of this loan contract; and (v) specification, in relation to each work to be financed, of the MTOP's obligations with respect to the preparation and technical management, including socioenvironmental management, of each work, including in the event of termination of the concession contract (paragraph 3.2).

Special contractual conditions for execution: (i) for use of the resources allocated for works under Component I, the executing agency, acting through the National Highway Department (DNV), will present, before adjudicating each work and to the Bank's satisfaction, a supervision protocol to include, among other things, the professional and technical team that will work on the different activities involved in supervision of the work, including socioenvironmental supervision; (ii) for use of the resources allocated for the execution of works under Component 1 that correspond to a departmental government, evidence will be presented to the Bank of a signed framework agreement in force between the departmental government and the MTOP enabling execution of the works by the CVU and establishing the commitment of the departmental government to maintaining the roadway after works are completed; (iii) the borrower and the executing agency will obtain the Bank's no objection before signing any modification to the specific agreement signed by the MTOP, the MEF, the CND, and the CVU on 17 February 2016; and (iv) the term for beginning all works under the program will be two years from the effective date of the loan contract (paragraph 3.4). See also the special contractual conditions in Annex B to the Environmental and Social Management Report (ESMR).

Exceptions to Bank policies: None.

Strategic alignment

Challenges:[d]	SI	☐	PI	☑	EI	☐
Crosscutting themes:[e]	GD	☐	CC	☑	CI	☐

[a] Under the terms of the Flexible Financing Facility (FFF) (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity 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 relevant 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. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problems to be addressed, and rationale

1.1 **Roadway infrastructure.** Uruguay has a dense road network, with approximately one kilometer of road per 3.5 km^2 of territory. The country's road network comprises 8,700 km of roadways under the national government's jurisdiction, with largely superior quality design, geometry, and paving, connecting the country's main population centers, border crossings, and ports.[1] More than 80% of this network is single lane, except around the Montevideo metropolitan area and the southern tourism corridor.[2] There are also 40,000 km of rural roads under the jurisdiction of departmental governments, of which 14,000 km are highly economically relevant as feeder roads that usher agricultural production toward national highways, and because they provide connectivity to small towns and rural populations.[3] Most of the departmental road network is rough pavement, most of its length has limited freight capacity, and its geometric design makes it vulnerable to flooding in extreme weather events.[4]

1.2 **Sharp growth in forestry and agricultural production.**[5] Uruguay's agricultural sector has experienced sharp economic and technological transformations in the last decade, driving its development and in large part, the country's development.[6] As a result of forestry policy implemented in the mid-1990s, timber production experienced an accelerated increase, reaching 11 million tons in 2015. This growth is primarily due to industrial production (essentially pulp), which increased from 41% of production in 2000, to 79% in 2015, driven by the expansion of forested

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[1] The national road network breaks down into: 2,408 km of international corridors, connecting the main border crossings to Montevideo; 1,551 km of complementary primary network, linking departmental capitals to Montevideo; 3,813 km of secondary roadways; and 1,005 km of tertiary roadways, the latter primarily interconnecting roadways between the international corridors and primary roadways.

[2] The annual average daily transit on the primary national network (approximately 7,200 km) is approximately 1,200 to 3,000 vehicles, except in the metropolitan area where it exceeds 4,000 vehicles, and on southern tourist highways where it exceeds 12,000 vehicles. Annual average daily transit on the secondary national network is approximately 600 vehicles. The entire national highway network is managed by the National Highway Department (DNV) of the Ministry of Transportation and Public Works (MTOP). Approximately 50% of the national network is maintained through service contracts, while the rest is maintained by administration or spot contracts to supply materials and services.

[3] According to the 2011 Census, 16% of the country's population lives in rural areas and towns of fewer than 5,000 inhabitants. Some 175,613 people live in rural areas and 340,537 people in small towns. Source: Instituto Nacional de Estadística.

[4] The departmental road network comprises 800 km of roads considered high-traffic, with circulation in excess of 30 trucks per day; another 13,000 km with 10-30 trucks per day are considered moderate-traffic roads; and 26,000 km of rural connection roads. Maintenance of this network is usually managed by departmental governments, while specific rehabilitation works are occasionally contracted.

[5] Agricultural exports have grown continuously over the last decade. Agricultural exports in 2004 were US$1.943 billion annually, while in 2016 they reached $5.3 billion, or just more than 70% of total exports. Source: Anuario Estadístico Agropecuario DIEA, MGAP.

[6] From 2004 to 2017, Gross Domestic Product (GDP) grew at an annual rate of 4.7%, doubling the historical average of the previous three decades. Source: https://data.worldbank.org/. Exports during this period rose from US$3 billion to US$9.2 billion, driven by agricultural growth that increased from 50% of exports to 75%. Source: Uruguay XXI.

area into new areas of the country, increasing from 250,000 hectares in the mid-1990s, to nearly a million during that period.[7]

1.3 The farming sector also experienced significant development over the last decade. Broadly favorable international prices for raw materials and the introduction of technology spurred expansion of the farming sector, which grew from 1.2 million hectares in 2005 to 2.5 million in 2015, doubling production, which increased from three million tons to more than 6.5 million in that period.[8]

1.4 **Impact of increased freight shipping on roadway infrastructure.** The increase in freight has mostly resulted in greater pressure on roadway systems, given limited rail development.[9] From 2005 to 2013, heavy vehicle traffic on national routes grew to an annual average rate of more than 13%, reaching more than 30 million tons, of which more than 60% is bulk farm products and round wood.[10] This increased traffic was also absorbed into the rural departmental road network, resulting in nearly 800 km experiencing heavy traffic (more than 30 loaded trucks daily), substantially linked to timber transportation and seasonally to transportation of farm products.[11]

1.5 Not only has heavy vehicle traffic increased, but the freight origin-destination matrix has changed. Vehicular flows on the main road network into Montevideo continue to rise. At the same time, however, a new matrix has consolidated along a cross-connecting road corridor, consisting of secondary national roads and part of the departmental rural road system, over which agricultural production moves toward ports and pulp mills on the coast.[12]

1.6 This new reality in the country's agroindustrial sector means that 56% of the national road network currently experiences heavy use from the main agricultural flows, where approximately 40% of that length are roadways that were previously classified as secondary. The geometric design of these roads, along with heavily transited rural roads, are not suitable for the volume and composition of current traffic flows.[13]

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[7] Souto, Gonzalo, Tomasino, Humberto, Errea, Eduardo, Sáder, Mayid. Logística de las cuatro principales cadenas agroindustriales del Uruguay.

[8] Souto, Gonzalo, Tomasino, Humberto, Errea, Eduardo, Sáder, Mayid. Logística de las cuatro principales cadenas agroindustriales del Uruguay.

[9] In addition to the limited extension of the rail system, the railway has had difficulty modernizing and capturing a greater share of freight transportation due to institutional difficulties. Technical note on the freight transportation and urban mobility.

[10] Information from the traffic density system provided by the National Highway System (DNV).

[11] Three million tons of timber, 525,000 tons of bulk farm products, 141,000 tons of livestock, and 15,000 liters of liquid milk are transported over heavily transited rural road networks (800 km).

[12] The sea ports of Nueva Palmira and Fray Bentos, as well as the river port of Paysandú.

[13] Technical note on the freight transportation and urban mobility. The secondary network under national jurisdiction (1300 km) and 200 km of the departmental network are thought to be in the described situation.

1.7 **Conditions.**[14] Since the economic crisis of 2002, when the maintenance deficit on the national road network had reached 60% of its length, important efforts were undertaken to improve road conditions, and by 2009, good conditions had been achieved for 50% of the network, rising to 56% by 2018. Poor conditions still prevail on more than 60% of the length of less traveled roads (fewer than 1,000 vehicles a day), essentially because the pavement was not prepared for the new demand they absorbed. The deterioration reached such a degree that they cannot be addressed by maintenance activities.[15]

1.8 **Investment required to address new transportation demands.** Studies done early in the 2015-2020 period, including the sector note[16] produced by the Bank, estimated the investment required for that period was on the order of US$2 billion. This investment is for: (i) rehabilitation and maintenance of the primary road system; (ii) geometric and structural adaptation of the secondary road corridor, which is increasingly being used to carry timber and grain to pulp mills and coastal ports; and (iii) investments to improve road safety, including bypasses to population centers, adaptation of urban through streets and implementing tertiary roads. Specifically, the US$1.99 billion Road Sector Investment Plan approved by the Uruguayan government for 2015-2019,[17] designates 45% for highway rehabilitation, 37% for conservation contracts for the main network, and the remainder for improvements in road safety. The MTOP has also implemented a Public-Private Partnership (PPP) program to improve a group of roadway corridors, part of them in the secondary, interconnecting road network, for an initial estimated value of US$712 million.

1.9 The Uruguayan government has also increased transfers to departmental governments to rehabilitate the rural departmental road system: the National Budget Act[18] for the current five-year period includes a 90% increase in transfers, which, together with departmental governments' contributions, will reach US$150 million for the period.

1.10 **Corporación Vial del Uruguay S.A. (CVU).** The CVU is a private enterprise whose sole activity is operating a road concession granted by the MTOP. The CVU is owned by the CND, a public entity governed by private law. In October 2001, the MTOP and the CND signed a cooperation agreement, whereby the former contracts the latter to build infrastructure works as a public works concession. The contract establishes the general conditions of the relationship between the two institutions, and takes the view that, among other things, the implementation of works will be contracted by the concession holder following procedures similar to public sector procedures, and that each contract will require MTOP approval. The CVU, therefore, contracts private companies through a competitive process with

[14] A paved surface is considered to be in very good condition if the Surface Condition Index (SCI) is greater than 85; between 70 and 85 is good; 50-70 is fair; and less than 50 is poor. The methodology is described in a visual paved surface assessment manual prepared by the DNV, and based on the Pavement Condition Index (ASTM D6433-11), adapted and calibrated to local conditions.

[15] Technical note on the freight transportation and urban mobility. And Informe y Memoria Anual de la Gestión del Gobierno Nacional 2018.

[16] Technical note on the freight transportation and urban mobility.

[17] Informe y Memoria Anual de la Gestión del Gobierno Nacional 2018.

[18] Law Nº 18,719 of 2015.

DNV oversight. To date, the CVU executes nearly all rehabilitation and maintenance works on the road network under MTOP jurisdiction.

1.11 **Investment agreement with UPM PULP OY (UPM).**[19] Under the investment agreement signed by Uruguay and UPM, the Uruguayan government, through the MTOP, agrees to perform roadway rehabilitation and adaptation works needed to prepare for the circulation of triple road trains and 48-ton tractor trailers[20] on roadway corridors that feed lumber freight flows toward the existing pulp mill on the shore of the Uruguay River and, in the future, to the mill that will be located in the center of the country. This commitment includes geometric modification of pavements and bridges on several segments of the tertiary national road network and rural departmental roads, most of which are part the network that interconnects main routes, so that they will have the standard design and structure of primary or secondary roadways, according to the differing levels of demand.

1.12 **Climate change and extreme weather events.** In recent years, the country has been subjected to more frequent extreme weather events than in the past. Specifically, higher volume and concentration of precipitation in shorter periods has been observed, resulting in flooding and immediate collapse of rural departmental roadways, occasionally even on national highways, with greater frequency and magnitude. This has resulted in greater demands on the performance of hydraulic works (storm sewers and bridges) and on pavement maintenance; as well as more prolonged periods during which roadways cannot be used to move people and merchandise.[21]

1.13 **Gender and diversity in the road sector.**[22] While women's participation in the road construction subsector (6%) is slightly higher than the construction section on the whole (4%), this figure is far from the average value for the economy at large (44%). There is also inequality in the distribution of labor, with only 43.3% of women performing operational tasks, compared to 88.1% of men; there are almost no women in management and supervisory roles in the subsector, while women represent 15% in the construction sector on the whole. In light of this situation, the MTOP is developing a gender and diversity plan with the Bank's cooperation, which plans interventions in the internal sphere of the institution, as well as in the

[19] The agreement includes the design, financing, engineering, procurement, construction, operation, and maintenance of a pulp mill located near the town of Paso de los Toros, with an annual capacity (measured on the drying machine) of between 1.9 million and 2.4 million tons, along with other associated facilities. The investment is expected to increase GDP by approximately 2 percentage points, and will generate US$1 billion annually in new agroindustrial exports. Contract between the Eastern Republic of Uruguay and UPM PULP OY, 7 November 2017.

[20] Double road trains (a type of trucks usually identified as high-productivity vehicles) have been authorized to circulate since 2011, on Routes 24 and 25 in the country's coastal area. Under the Road Infrastructure Program II (loans 2677/OC-UR, 2577/OC–UR-1, 2677/OC-UR-2, 2677/OC-UR-3), the MTOP is developing technical studies with international assistance, to extend their use to other highways in the country and to incorporate more of this type of vehicle, given the favorable impact on pavement maintenance and reduced transportation costs that comes with larger freight loads and better ratio of traction to weight transported.

[21] "Hay 28 pasos cortados en Florida." Based on a survey conducted by technicians in the Office of Planning and Budgeting (OPP), during this extreme event, 106 points on the rural departmental road network were flooded or damaged by the effect of runoff, impeding traffic for approximately 12 hours, and another 66 points for approximately eight hours.

[22] See Estudio de Género en la Industria de la Construcción, road subsector.

areas in which it has direct influence, such as road construction and regulated interdepartmental transportation services.

1.14 **Strategic issues.** The program promotes technological innovation of the works supervision process, by financing the digital platform to implement the process contained in the DNV Works Supervision Manual. It also promotes gender equality and inclusion, by including financing actions arising from the Gender and Diversity Plan that the MTOP is currently developing with Bank support; this plan will undertake actions related to the Ministry itself, and also in the areas where the Ministry is the governing authority, such as road construction and interurban passenger transportation. Climate change aspects have been given special design consideration in interventions, to adapt rehabilitated infrastructure to the new climate and hydrological conditions.

1.15 **Beneficiaries.** The first operation under the CCLIP calls for works on routes located in the departments of Durazno and Tacuarembó. The primary beneficiaries of the program are agroindustrial and forestry production. More than 400,000 tons of wheat, barley, soy, corn, and sorghum are harvested annually in the abovementioned departments. Since 1987, more than one million hectares have been planted in the country, of which 18% are located in the departments benefitting from the program; the same departments harvest approximately four million tons of timber annually for the wood pulp industry, 30% of which can be directly linked to the same routes where interventions are planned.[23]

1.16 **Rationale and strategy for the CCLIP.** The Uruguayan government's strategy requires obtaining short- and medium-term financing to develop the interconnecting road network, so that this volume of investment above the historical average will be compatible with fiscal balances and other public policy challenges. With the CCLIP, the Uruguayan government seeks to reaffirm the strategic nature of efforts to rehabilitate and improve the country's secondary roadway network, in line with its efforts on rural roadways and with the ongoing policy of improving and maintaining the primary network of the last 25 years. In this regard, the sector CCLIP is an appropriate instrument in that it facilitates the structuring of medium-term financing and supports the financial sustainability of the Uruguayan government's strategy. One or two loan programs are expected under the CCLIP and will be built around: interventions similar to those planned under this first operation but in other regions of the country facing similar problems; or interventions along the same routes targeted in the first operation to bring them up to the asphalt surface standard if the heavy traffic projections are confirmed.

1.17 **Lessons learned.** The CVU has fully implemented the CVU Highway Program (loan 2041/OC-UR), approved in 2008, and is finalizing implementation of the CVU Highway Program II (loan 3578/OC-UR), approved in 2014. The first of these was structured as a performance-driven loan (PDL) and produced excellent outcomes in terms of primary road network maintenance, in that it was perfectly suited for results-based procurement of road maintenance, through program-financed rehabilitation and maintenance contracts (RMCs). The second of the

[23] Souto, Gonzalo, Tomasino, Humberto, Errea, Eduardo, Sáder, Mayid. Logística de las cuatro principales cadenas agroindustriales del Uruguay. Works are planned for Route 4, 41, 43, 59, and 90.

abovementioned programs took the form of multiple works because the PDL instrument was not available at the time it was approved. The lesson learned from the outcomes of both programs was that the Bank's results-based financial instruments are well suited for operating RMCs, especially in the cases of executing agencies such as the CVU that can address the availability of working capital independently of Bank financing.

1.18 Multiple-works instruments continue to be the best suited for works programs, such as the one proposed. The impact assessment that was carried out[24] shows that using RMCs for maintenance has had a positive effect on efficiency. This form of contracting is well-suited to highway works when the risk transferred to the contractor is minimal, such as roadways with an asphalt layer in good or rehabilitated condition; for works with simpler paving, such as those that this program will finance, the construction risk should more appropriately remain with the contracting agency. That said, executing agencies that traditionally handle service contracts, such as in Uruguay, develop better strategies for road network maintenance, even if they execute such maintenance using traditional contracts.

1.19 **Strategic alignment.** The first individual operation of the CCLIP (hereinafter the program) aligns with the IDB Group Country Strategy with Uruguay (document GN-2836), by supporting improvements to production infrastructure. The program is also consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and directly aligns with the development challenge of productivity and innovation, by (i) facilitating infrastructure connectivity at the national level; and (ii) investing in infrastructure that improves economic productivity through greater efficiency in transportation operations. It is also aligned with the crosscutting them of climate change and environmental sustainability of the Update to the Institutional Strategy, given that it includes adjusting hydraulic designs of masonry structures and embankments to the new pluviometry and drainage scenarios, and it offers additionality vis-à-vis the crosscutting theme of gender and diversity, as it will finance the implementation of an MTOP Gender and Diversity Plan. The program supports the Corporate Results Framework of 2016-2019 (document GN-2727-6) through the main outcome indicator "length of roadways built or improved." In all, 1.22% of the operation's resources will be invested in climate change mitigation activities, according to the joint methodology of the multilateral development banks for tracking climate financing. These resources contribute to the IDB Group target of increasing financing for climate-related projects to 30% of approvals by the end of 2020. The program aligns with the Sustainable Infrastructure for Competitiveness and Inclusive Growth Strategy (document GN-2710-5), in regard to the strategic principle of planning, building, and maintaining road infrastructure to provide quality services to promote the sustainable and inclusive growth of the country, and contains measures in accordance with the Sustainable Infrastructure General Framework,[25] in particular with regard to the institutional and environmental pillars, given the focus on guaranteeing the resilience of the works to be financed, and the institutional strengthening efforts (1.25). It is also consistent with the Transportation Sector

[24] Technical note: Contratos por niveles de servicio. ¿Qué hemos aprendido?

[25] Technical note: ¿Qué es la infraestructura sostenible?: Un marco para orientar la sostenibilidad a lo largo del ciclo de vida del proyecto.

Framework Document (document GN-2740-7), as it supports rehabilitation and improvement of road network conditions to ensure full use of existing assets, increasing the quality and resilience in the face of climate change, and broad coverage of transportation infrastructure.

B. Objectives, components, and cost

1.20 **Objective of the CCLIP.** The general objective of the CCLIP is to support improved competitiveness through the construction, improvement, and rehabilitation of roadways associated with forestry and agroindustrial vehicular flows.

Figure 1. Location of the routes to serviced

1.21 **Objective of the first operation under the CCLIP.** The general objective of the first operation of the CCLIP is to increase the competitiveness of the forestry and agroindustrial sectors by building and improving secondary highways and departmental roads that facilitate interconnectivity. The specific objective of the program is to reduce the vehicle operating costs (VOC) of freight transportation. To achieve this objective, the program has the following components.

1.22 **Component 1. Infrastructure (US$80,610,000).** This component will finance: (i) geometrical and structural modifications of roads, complementary works, and masonry structures; (ii) structural rehabilitation of roads, and masonry structures;

(iii) widening and reinforcing bridges; (iv) expropriations;[26] and (v) oversight of the works.

1.23 Interventions on the routes will consist of platform rehabilitating and widening, using gravel fill material stabilized with Portland cement and paved with bituminous surface treatment, with sprayed-on asphalt emulsion on the roadway and simple bituminous surface treatment on the shoulders. Works incorporate earlier drainage correction, lengthening of storm sewers, patching, grading, formation and compaction of a base layer and/or existing pavement. It is complemented by vertical and horizontal signage of the work. In some cases the work may include planimetric and altimetric modifications to adjust the geometric design to conform to circulation safety standards based on volume and traffic composition. These design modifications will be developed without affecting areas beyond the public use strip, except when making modifications to intersections with roads or routes where more surface area needs to be appropriated; where necessary, and in accordance with national standards, this will not exceed 10 hectares.

1.24 The goal of the work on the Yí River bridge on Route 5[27] is to improve circulation conditions on the bridge for three-trailer road trains. To achieve this, the plan is to symmetrically widen the road to 9.2 meters (current width 8m) with Jersey barriers and bikes lanes on both sides, and to adjust for the maximum loads for this type of truck, at 74 tons.[28] Accesses to newly widened bridge and bike lines will be modified.

1.25 Climate and hydrological aspects consistent with the latest climate change forecasts were considered in designing the work on the routes, particularly in the design of hydraulic conduits.

1.26 **Component 2. Institutional strengthening (US$1,200,000).** This component will finance works supervision capacity-building activities, including: (i) process improvement; (ii) survey and information processing technology procurement; (iii) laboratory equipment procurement; and (iv) professional support. The MTOP Gender and Diversity Plan will also be financed.

1.27 **Administrative costs (US$1.51 million).** The CVU will receive 2.2% of program value for administration, which will be financed by the program.

1.28 **Audit, monitoring, and assessment (US$180,000).** The program will finance external audits of the program, as well as monitoring and assessment activities provided for in the corresponding plan.

1.29 **Works eligibility criteria.** A sample was selected, consisting of widening and reinforcing the Yí River bridge on Route 5, and rehabilitation of Route 43 (segments 1 and (2) with an estimated value of 30% of the program total, and it is representative of the type of works that may be financed, as well as the socio-

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[26] No expropriations are planned as part of the program works, but any that emerge may be financed under component 1.

[27] This work is part of a representative sample and this will likely be the only bridge financed by the program.

[28] The bridge currently in service has structural deficiencies consisting of floor and joint deteriorations, as well as cracks and chips in the driving surface on all of the bridge joints; the drainage is also functioning poorly, allowing moisture to pass through to the infrastructure through the blacktop and fill.

environmental characteristics, expected impacts and risks, and necessary mitigation measures. For the works in sample, the CVU has technical designs ready for immediate contracting, as well as economic assessments of the interventions. Because this is a multi-work operation, any works to be included in the program will have to meet the following eligibility requirements: (i) structural criteria: works should be similar to those defined in Component 1 (1.23); (ii) functional criteria: in the case of roads, they should connect to networks of equal or higher hierarchy; (iii) economic criteria: there should have socioeconomic viability studies and show an economic internal rate of return (EIRR) equal to or higher than 12%; and (iii) socio-environmental criteria: before each work is bid, there must be an Environmental and Social Management Plan (ESMP), to include an assessment of the most significant impacts and risks, and the Consulting Report that shows that a significant and fair process has been conducted; and that the work is not in socio-environmental category "A".

C. Key results indicators

1.30 **Results and their indicators.** The main program outcomes are related to: (i) reducing VOC along serviced segments of road; and (ii) reducing freight costs by incorporating more efficient vehicles, made possible by bridge improvements. The program impact will be measured by the percentage of t-km circulating on routes in good or very good condition.

1.31 **Economic evaluation.** An economic evaluation (cost-benefit analysis) was carried out of the sample using the Highway Development and Management Model (HDM-4),[29] the standard model for the sector. The evaluation showed an economic EIRR of 18% for highway works and 21% for the bridge work, under the base scenario conditions and hypotheticals.[30] The strength of each project was also verified under unfavorable hypothetical scenario, conducting a sensitivity analysis for: (i) a 20% increase in investment cost; (ii) a 20% reduction in benefits, and (iii) a combination of a 20% increase in investment cost (10%), and simultaneous 20% (10%) reduction in benefits for the Yí River Bridge (for Route 43).

1.32 The results of the analysis are in the Program Economic Evaluation included in optional link 1, and are summarized in the following table:

[29] HDM-4 is a project analysis tool used to study engineering viability and to estimate the economic value of investing in a roadway project, considering the full cycle of pavement performance, including strategy and maintenance costs, and identifying the benefits in user costs and the environmental effects of the improvements under the project. The model allows users to conduct a sensitivity analysis on key variables to investigate their impact on the results of the analysis.

[30] Considering that the remaining program works will be similar to the Route 43 sample, in terms of initial condition, traffic, and proposed work, and that the institutional strengthening component is 1.4% of the total cost of the total program value, the program's estimated EIRR is 18%.

Table 1. Results of the cost-benefit and sensitivity analyses

Project	Length (km)	Investment cost (US$000)	NPV (US$000)	EIRR (%)			
				Base	Sensitivity analysis		
					Investment cost +20%	Benefits (B) -20%	Combined
Route 43	54.6	17,499	2,580	18.14	14.43	13.71	14.10%[31]
Yí River bridge	0.5	9,410	3,664	21.16	-	-	14.51%[32]

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financial instruments

2.1 **Cost and financing.** The total program cost is US$83.5 million, US$70 million of which will be Bank financed, charged in dollars to the Single Currency Facility (SCF) of the Ordinary Capital; and US$13.5 million will be financed by local contribution. Bank financing will be provided through an investment loan for multiple works, given that independent, although technically similar, works will be financed.

Table 2. Program financing (in US$)

Components	IDB	Local contribution	Total	%
Component 1: Infrastructure	67,342,900	13,269,950	80,612,850	96.6
Component 2: Institutional strengthening	1,000,000	197,050	1,197,050	1.4
Administration	1,507,100	0	1,507,100	1.8
Audit, monitoring, and evaluation	150,000	33,000	183,000	0.2
TOTAL	**70,000,000**	**13,500,000**	**83,500,000**	**100**

2.2 The execution period will be three years,[33] with disbursements according to the following schedule.

Table 3. Disbursement schedule (in US$)

	2019	2020	2021	2022	Total
IDB	5,851,577	48,276,987	11,679,708	4,191,728	**70,000,000**
Local	1,128,632	9,309,048	2,252,801	809,518	**13,500,000**
Total	6,980,209	57,586,035	13,932,509	5,001,246	**83,500,000**

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31 Corresponds to a 10% cost increase, and 10% benefit reduction.

32 Corresponds to a 20% cost increase, and 20% benefit reduction.

33 In addition to the works that comprise the program's representative sample (Route 43 and the Route 5 bridge over the Yí River), the program plans to complete works on Routes 4, 41, 59, and 90. With the current budgets, these works would complete the implementation of Component 1. All of these works include engineering projects, have been put out for bid, with a 15-18 month implementation period. A three-year implementation period was agreed to, to include one year built in for possible unforeseen circumstances.

2.3 The CVU[34] meets eligibility requirements set forth in policy document GN-2246-11 for sector CCLIPs, in that: (i) it is an integral and sustainable part of the institution that manages the sector, together with the National Highway Department;[35] (ii) the institutional analysis shows that it will foreseeably maintain a trajectory of satisfactory performance (paragraph 2.11); (iii) it has completed multiple projects financed by a multilateral source in the last five years (paragraph 1.17); and (iv) previous projects have been developed satisfactorily; in this regard, the final evaluation of the completed CVU project (2041/OC-UR) found that the Borrower developed program technical management, procurement, and accounting without issue, implemented management tools beyond what was initially planned, achieved the expected outcomes, and maintained a low level of risk.[36]

2.4 The program meets the eligibility criteria established in policy document GN-2246-11 for sector CCLIPs, given that: (i) it is covered in at least one of the sectors and components of the credit line, specifically, the roadway sector; (ii) it is included in the country program; (iii) the CVU is an integral and sustainable part of the institution that manages the sector, together with the National Highway Department; and (iv) the institutional analysis shows that it will foreseeably maintain a satisfactory performance trajectory (paragraph 2.11).

2.5 The cost of the CCLIP is US$238.5 million, the Bank's share of which is US$200 million, and the duration is 10 years. A second loan operation is expected to be undertaken in 2022.

B. Environmental and social risks

2.6 In accordance with the Bank's Environment and Safeguards Compliance Policy (OP-703), the CCLIP is classified as category B.13, and the first operation as category B, with moderate risk indicator, and moderate natural disaster indicator.

2.7 Road works under the program are small works to repave and widen bridges in semi-rural, rural, agricultural, livestock or forestry areas, with small populations, and will cause primarily localized, short-term negative environmental and social impacts. Such impacts are typical for road construction projects of this scope and size, and include dust, erosion, noise, waste, traffic disruption, occupational safety and health, etc., for which there are already effective mitigation measures.

[34] In October 2001, the MTOP and the CND signed a cooperation agreement, whereby the former contracts the latter to build and maintain infrastructure works as a public works concession. Said contract establishes the general conditions for the relationship between the two institutions, taking into account among other aspects: (i) that the CND may create companies to manage the contract, which materialized with the immediate creation of the CVU; (ii) that implementation of works contracted by the contractor will follow procedures similar to public sector procedures, and each contract will require MTOP approval; and (iii) that the DNV will provide the CVU with technical assistance during implementation, which means that the CVU technical management will be exercised by the DNV (engineering designs, selecting awardees from bidding processes, and works supervision).

[35] The CVU currently implements nearly all rehabilitation and maintenance works on the roadway network under national jurisdiction. This implementation arrangement for road works began in 2001 and has not only continued over several different administrations but has increased in volume and percentage of public spending on roadways.

[36] PCR of the CVU Highway Program, 2041/OC-UR.

2.8 During loan preparation, an Environmental and Social Analysis was also prepared for the program, as well as an ESMP for the sample projects (Route 43 and the Route 5 bridge over the Yí River), including a socio-environmental impact and risk analysis, and confirming that the sample works are not within protected or ecologically sensitive areas, no populations will be relocated, and local communities lives, uses, or customs will not be changed. Each ESMP includes a consultation plan, and public consultation event for each project was held on 23 May.[37]

2.9 The direct and indirect social and environmental impacts and risks of the first operation were assessed, and the program's connection to the UPM investment and the forest production model was considered, with special attention paid to the dissatisfaction with the model that has been expressed by several sectors of the population. The conclusion was that there is a set of easily implemented mitigation measures with proven effectiveness that render these negative impacts insignificant.

2.10 An Environmental and Social Management Framework (ESMF) was prepared for works outside the sample. Category "A" projects and any future program project that will involve physical relocation are excluded.

C. Fiduciary risk

2.11 The Bank conducted an ICAS in 2015, which reported a low fiduciary risk level. Although for the current operation the structure and implementation mechanism defined by the CVU, in regard to fiduciary matters, will remain unchanged, together with satisfactory performance in executing the current operation, confirmed by annual audit reports that do not report any observations, the fiduciary risk of the executing agency is considered to be low.

D. Other key issues and risks

2.12 **Public management and governance risks.** A risk management analysis identified two public management and governance risks that were classified as medium, for which mitigation measures are proposed. First, there is a risk of not having sufficient human resources to supervise the works, which is mitigated by the execution condition set out in paragraph 3.4, which establishes the supervision protocol, as well as the staff to be assigned for each work. Second, there is a risk of not having the legal instruments needed to intervene in roadways under departmental jurisdiction, for which the anticipated implementation condition is to make such an instrument required prior to project award.[38]

2.13 **Integrity risk.** As part of the Bank strategy to promote transparency and integrity in the region, the Office of Institutional Integrity (OII) joined forces with the project team and in coordination with the executing agency, to continue to strengthen their integrity risk prevention and management capacity during program implementation. In this context, at the time this document was prepared, the OII is conducting a review of the integrity risk to identify strengths and areas of opportunity in the executing agency's internal governance and controls. The result of this analysis

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[37] See the consultation report on the Yí River and the consultation report on Route 43.

[38] Of the works proposed in the program, only Route 59 is currently under departmental jurisdiction.

will identify action areas to ensure that the executing agency and stakeholders involved in program implementation have all the mechanisms and tools to effectively and efficiently prevent and mitigate integrity risks, and their reputational impact. This analysis complements efforts of the Bank's other relevant areas in risk prevention and management.

2.14 **Sustainability of the investments.** Maintenance of the routes selected for program intervention will be the responsibility of the DNV, which will take over responsibility for this activity once the CVU finalizes the implementation of the works. The DNV has a road maintenance policy with very positive results, whether implementing by contract or direct implementation through its regional offices.[39]

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Implementation mechanism

3.1 **Borrower, executing agency, and guarantor.** The borrower will be the National Corporation for Development (CND),[40] and the Republic of Uruguay will be the guarantor, pursuant to the policy of guarantees required from the borrower (document GP-104-2). The CVU will be the executing agency.[41]

3.2 **The concession.** In accordance with Uruguayan law, the concession contract[42] operates as a framework contract under which specific agreements can be signed to implement works and projects under the concession. Under this approach, the MTOP (grantor), the CND (assignee) and the CVU (transferee for concession implementation) have signed several specific agreements to implement road infrastructure construction, rehabilitation, and/or maintenance programs. The Ministry of Economy and Finance (MEF) also participates in these agreements in order to guarantee the commitment of MTOP budget resources to pay the scheduled grants and VAT exemption. **A special contractual condition**

[39] See the baseline indicator of program impact, which shows that currently 75% of the t-km circulating on the road system under DNV jurisdiction do so on routes in good or very good condition.

[40] The CND is a legal entity under non-state public law on the basis of Law No. 15,785. This law authorizes the CND to contract loans in the country and internationally. Additionally, Article 34 of Law No. 18,602, provides that the CND may act as a grantor of public infrastructure projects in transportation, energy, telecommunications, and any other type intended for public use, in accordance with appointments by law, contracts and/or agreements. To that effect, the CND may create or acquire commercial companies or participate in consortiums and/or specialized trusts, to develop concessions or projects granted to it.

[41] The CVU is a stock corporation whose capital belongs entirely to the CND. The CVU's objective is to operate those public works necessary to implement the obligations undertaken by the CND as defined in the concession contract. Under the provisions of the concession contract, the CND relinquished execution of the concession to the CVU. The assignment contract was signed on 18 February 2003, and approved by Executive Resolution, following intervention by the Court of Auditors of the Republic, on 9 April 2003. The assignment contract establishes that the CVU will exercise the rights and fulfill the obligations of the concession contract, governed by all the applicable public works rules, and stipulations cited in the assignment contract.

[42] Assignment contracts enter into force after they are approved by the Executive, following intervention by the Court of Audits of the Republic. The concession was granted to the CND in a contract dated 5 October 2001, signed between the MTOP as grantor and the CND as assignee. The original term of the contract was 15 years, it was extended to October 2020. The legal framework under which the concession contract was made includes, among other policies, Executive Order No. 15,637 on Public Works Concession. This law authorizes the grantor to subsidize the concession and the Executive to grant exemptions to the assignee, including exemption from the Value Added Tax (VAT).

precedent to the first disbursement will be the signature and entry into effect of a specific agreement between the MTOP, the MEF, the CND, and the CVU, to include, among other things, the following: (i) the parties' commitment to fulfill the obligations set forth in the signed loan agreement between the borrower and the Bank; (ii) the CND's commitment to transfer the loan proceeds to the CVU; (iii) the CVU's commitment to provide the local contribution resources committed by the CND; (iv) the CVU's commitment to use the proceeds from the loan and the local contribution in accordance with the terms of this loan contract; and (v) specification, in relation to each work to be financed, of the MTOP's obligations with respect to the preparation and technical management, including socioenvironmental management, of each work, including in the event of termination of the concession contract. This special contractual condition is required in order to secure the availability of funds and technical administration needed for program execution.

3.3 The MTOP is also responsible for preparing engineering designs and overseeing the corresponding works, which it has been implementing prior works with other multilateral credit agencies. These programs have financed activities included in the MTOP's basic tasks and competencies, which it implements with its own funds and with external financial assistance. With officials from its own structure, the MTOP organization is responsible for preparing documents for bidding, calls for national or international competitive bidding, for supervision and control of consulting contract implementation, and for implementation of adjudicated works. The MTOP follows the forms required by the process by phases of public spending. To this effect, its organizational structure has an External Financing Consultant office attached to the senior hierarchy, who coordinates program implementation and will be responsible for Bank relations, and an International Loan Department, reporting to the Accounting and Finance Division.

3.4 Special contractual conditions of execution: (i) for use of the resources allocated for works under Component I, the executing agency, acting through the National Highway Department (DNV), will present, before adjudicating each work and to the Bank's satisfaction, a supervision protocol to include, among other things, the professional and technical team that will work on the different activities involved in supervision of the work, including socioenvironmental supervision; (ii) for use of the resources allocated for the execution of works under Component 1 that correspond to a departmental government, evidence will be presented to the Bank of a signed framework agreement in force between the departmental government and the MTOP enabling execution of the works by the CVU and establishing the commitment of the departmental government to maintain the roadway after works are completed; (iii) the borrower and the executing agency will obtain the Bank's no objection before signing any modification to the specific agreement signed by the MTOP, the MEF, the CND, and the CVU on 17 February 2016; and (iv) the term for beginning all works under the program will be two years from the effective date of the loan contract. The first of these conditions will allow for a level of supervision appropriate to their dimension and complexity. The second will ensure that there is a legal basis to be able to implement and maintain works that are not under MTOP jurisdiction. The third will ensure that the foundational agreement for execution of the program cannot be altered without the Bank's consent. The fourth

condition will ensure that program implementation conforms to the three-year disbursement period.

3.5 **Operation and maintenance.** In the first quarter of each calendar year, starting in the year when the first program-financed work is completed and up to three years subsequent to the end of the disbursement period for the loan, the borrower, acting through the executing agency, through the DNV, will deliver to the Bank the annual maintenance plan for works and goods financed by the operation and information about the operation and maintenance process used. The commitment to produce these reports will be incorporated into the framework agreement to be signed between the departmental governments and the MTOP. If Bank inspections or reports received by the Bank determine that maintenance is being done at below acceptable levels, the borrower, through the executing agency, will adopt the necessary measures to fully correct the deficiencies.

3.6 **Disbursements.** The disbursement approach will be advances, based on real needs for liquidity. These advances will preferably be made semiannually, once the accountability report has been made for at least 70% of the expected amount, and will require delivery of accounting forms and financial planning documentation. Document review will be done ex post.

3.7 **Audits.** Annually during implementation, the CVU will present audited financial statements for the program, according to Bank-required terms (OP-273-6). The audited financial statements will be delivered within 120 days after the end of the fiscal year and the closure statement within 120 days after the final disbursement.

3.8 **Procurement.** Bank procurement policies applicable to all planned procurement activity under this operation are: Policies for the Procurement of Goods and Works (document GN-2349-9) and Policies for the Selection and Contracting of Consultants (document GN-2350-9).

3.9 **Anticipated contracting.** In accordance with Section 1.9 of the Policies for the Procurement of Goods and Works (document GN-2349-9), the executing agency may conduct the bidding process before the loan is approved. Pursuant to the same section of document GN-2349-9, "the borrower undertakes such advance contracting at its own risk, and any concurrence by the Bank with the procedures, documentation, or proposal for award does not commit the Bank to make a loan for the project in question." An advance contracting process may be considered eligible if it is appropriately registered and documented in the executing agency's systems, and if it has been undertaken in accordance with Bank policies or similar procedures that align with applicable Bank policy provisions. As indicated by the CVU, the retroactive financing mechanism is not expected to be used.

B. Summary of monitoring and evaluation measures

3.10 The purpose of the monitoring plan is to accompany program implementation, conducting proposed activities, and the physical and financial implementation of the outputs. The plan incorporates three main monitoring elements: (i) administrative and program control; (ii) of activities and outputs; and (iii) the outcomes.

3.11 Before and after methodologies, as well ex post cost-benefit analysis will be used to monitor and assess the expected results of the program. The evaluation is primarily based on the HDM-4 model. Ex post cost-benefit analysis of each of the program-financed works will replicate the model used ex ante, as part of the feasibility studies. This analysis is to be done in two scenarios: In the first, expected program benefits are updated, with costs remaining constant, making it possible to measure whether the benefits achieved are sufficient to recover the investment with the planned costs. In the second phase, benefits, as well as costs will be updated, thereby obtaining a measure as to whether the project was a profitable investment considering the costs and benefits achieved. Analysis in stages makes it possible to isolate the effect of a possible exogenous cost increase in the realized gains. Ex post evaluation will use the traffic and highway condition measurement as surveyed, particularly at the time of the analysis.

Development Effectiveness Matrix		
Summary	**UR-L1153**	
I. Corporate and Country Priorities		
1. IDB Development Objectives		
Development Challenges & Cross-cutting Themes	**-Productivity and Innovation -Climate Change and Environmental Sustainability**	
Country Development Results Indicators		
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2836**	**Invest in transport and logistics infrastructure, favor fluvio-maritime transport and rail freight transport, create the National Infrastructure System, energy self-sufficiency, betting on autochthonous and renewable energies**
Country Program Results Matrix	**GN-2948**	**The intervention is included in the 2019 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**7.1**	
3.1 Program Diagnosis	**2.4**	
3.2 Proposed Interventions or Solutions	**1.7**	
3.3 Results Matrix Quality	**3.0**	
4. Ex ante Economic Analysis	**10.0**	
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	**1.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**8.5**	
5.1 Monitoring Mechanisms	**2.5**	
5.2 Evaluation Plan	**6.0**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Low**	
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	**B**	
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. Procurement: Information System, Price Comparison, Contracting Individual Consultant.**
Non-Fiduciary		
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		

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

Evaluability Assessment Note:

This is the first operation of a conditional credit line for investment loans (CCLIP) for US$200 million. The first loan, for multiple works, is for US$70 million, co-financing investments for US$83.5 million. The general objective of the program is to increase the competitiveness of the forestry and agro-industrial sectors through the construction and improvement of secondary roads and departmental roads that facilitate cross-connectivity. The specific objective of the program is the reduction of the costs of vehicular operation of cargo transport. The agricultural sector of Uruguay has had a significant growth in the last decade, resulting in the doubling of production between 2005 and 2016. This growth has resulted in changes in the distribution of origin and destination of cargoes, on a transversal road network, comprised of secondary national roads and part of the rural departmental roads. This has implied a greater demand on the roads, with an increase of more than 13% per year in the transit of trucks on the nation routes. This growth has also affected the rural departmental roads, with a great increase in roads with intense traffic, which do not present geometric conditions adequate to the volume and composition of the current traffic. It is estimated that 1,300 km of the secondary network of national jurisdiction and 200 km of the departmental network are in this situation. The results of the project will be the reduction of vehicular operation costs in the roads and bridge intervened, with an impact of keeping constant the percentage of vehicles-KM in the national road network that circulate on roads in good and very good condition.

The ex-ante economic analysis of the intervention, carried out on a representative sample of roads and a bridge, is appropriate, with reasonable and standard assumptions for this type of project, and with reasonable sensitivity analyzes. The net present value of the road segments in the representative sample is US $ 2.85 million, and of the bridge is US $ 3.67 million. The expected internal rate of return for the entire project, under reasonable assumptions, is around 18%.

The project evaluation plan proposes to perform an ex-post cost-benefit analysis that is well presented and developed. This type of analysis does not allow to measure the ex-post effectiveness, but the efficiency of the project at its completion.

RESULTS MATRIX

Project objective:	The general objective of the CCLIP is to support improved competitiveness through the construction, improvement, and rehabilitation of roadways associated with forestry and agroindustrial vehicular flows. The general objective of the first operation under the CCLIP is to increase the competitiveness of the forestry and agroindustrial sectors by building and improving secondary highways and departmental roads that facilitate interconnectivity. The specific objective of the program is to reduce the vehicle operating costs (VOC) of freight transportation.

EXPECTED IMPACT

Indicators	Unit of measurement	Baseline	Year Baseline	Final target 2022	Means of verification
Percentage of veh-km circulating on highways in the national road network in very good and good condition[1]	% of veh/km	75	2019	75[2]	Corporación Vial del Uruguay S.A. (CVU) / National Highway Department (DNV) Report based on an annual comfort survey, traffic survey, and weigh station information produced by the Ministry of Transportation and Public Works (MTOP).

EXPECTED OUTCOMES

Indicators	Unit of measurement	Baseline	Year Baseline	Final target 2022	Means of verification
Tractor-trailer vehicle operating costs (VOC) on roadway segments covered under the program.	US$ constant / veh/km	0.0587[3]	2019	0.0495[4]	Estimated using the HDM-4 model, using as inputs the average roughness value of roadway segments in the program, which are surveyed annually by the DNV Maintenance Division, and fleet composition of tractor-trailers, surveyed annually by DNV Transit Department traffic counts. CVU / DNV report.

[1] A paved surface with a Pavement Condition Index (PCI) score greater than 85 is considered to be in very good condition; a value from 70-85 is good; 50-70 is fair; and a paved surface scored below 50 is considered to be in poor condition. The methodology is described in a DNV-published manual on visual paved surface assessment based on the Pavement Condition Index (ASTM D6433-11), adapted and calibrated to local conditions.

[2] The investment schedule and types of projects established in the DNV Strategic Plan for works for the 2020-2024 period will have to be implemented in order to meet the 2022 target. The baseline value is particularly high and maintaining it over time is a positive outcome; if the planned interventions are not carried out (including those financed under the program), a deterioration in the value of the impact indicator may be observed.

[3] The baseline corresponds to the highway rehabilitation work included in the representative sample (Route 43).

[4] The expected target value for the highway rehabilitation work included in the representative sample (Route 43). A 15% reduction in VOC is also anticipated for all other highway work under the program.

Indicators	Unit of measurement	Baseline	Year Baseline	Final target 2022	Means of verification
Average VOC of freight fleet on routes with rehabilitated bridges	US$ constant / veh-km[5]	0.0527	2019	0.0518	Estimated using the HDM-4 model, using freight fleet composition as input, surveyed annually by DNV Transit Department counters. CVU / DNV report.

OUTPUTS

Outputs	Unit of measure-ment	Baseline	Year Baseline	Year 1	Year 2	Year 3	Year 4	Final target 2022	Means of verification
Component 1: Infrastructure									
Length of highway improved under the program	km	0	2019	0	49	160	0	209	Semiannual program progress reports, monthly work progress reports.
Length of bridges widened and reinforced under the program	m	0					500	500	Semiannual program progress reports, monthly work progress reports.
Component 2: Institutional Strengthening									
Functioning computerized works monitoring system	System	0			1			1	Semiannual CVU / DNV report, and IDB project team site visit report.
Functioning apparatus for work monitoring tests in central laboratory	Apparatus	0			1			1	Semiannual CVU / DNV report, and IDB project team site visit report.
Training hours offered for project management-related activities	Hours	0	2019		200	200		400	CVU / DNV report with results of contracted training.
Actions outlined in the Gender and Diversity Plan implemented	Regulatory measures	0			1	2		3	DNV report on implemented actions. Actions anticipated for each year will be taken into account in the plan being designed.

[5] Increased bridge capacity will allow for gradual changes in freight fleet composition, toward more efficient trucks, which currently cannot circulate because of bridge conditions. The indicator weighs the effect of this change, controlling for conditions of nearby highways. Therefore, VOC are estimated using HDM-4 at the beginning of the program, considering the composition of the surveyed fleet and current pavement condition (VOC are estimated at the close of the project using HDM-4, looking at freight fleet composition at that point, and with the same pavement condition as the baseline situation).

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Uruguay
Project Number:	UR-L1153
Name:	Program to Improve Road Corridors for Agroindustry and Forestry
Executing agency:	Corporación Vial del Uruguay S.A. (CVU)
Prepared by:	Abel Cuba and Emilie Chapuis (FMP/CUR)

I. EXECUTIVE SUMMARY

1.1 This is the first operation for US$83.5 million (US$70 million from the IDB and US$13.5 million in local contribution) of a Conditional Credit Line for Investment Projects (CCLIP) for US$238.5 million (US$200 million from the IDB and US$38.5 million in local contribution). The borrower is the National Development Corporation (CND) the executing agency will be the Corporación Vial del Uruguay S.A. (CVU), and the Eastern Republic of Uruguay is the guarantor. This institution has an organizational and administrative structure that will be responsible for implementing the operation.

1.2 The Fiduciary Agreements and Requirements established for this program are based on the CVU's experience as the executing agency for loans 2041/OC-UR and 3578/OC-UR, the latter is ongoing. The CVU has extensive experience implementing projects with multilateral agencies.

1.3 In 2015, as part of the design framework of operation 3578/OC-UR, the Bank conducted an assessment of the CVU's institutional capacity using the Institutional Capacity Assessment System (ICAS), which showed a satisfactory degree of development of its systems and low fiduciary risk. An update to that assessment was not considered in the design of this operation, because the structure and implementation mechanism defined by the CVU will remain unchanged in regard to fiduciary topics, and given the satisfactory performance implementing the current, ongoing loan, confirmed by annual audit reports that report no observations.

II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

2.1 The CVU is a private enterprise whose sole activity is operating a road concession granted by Uruguay's Ministry of Transportation and Public Works (MTOP). The CVU is owned by CND, a public entity governed by private law. In October 2001, the MTOP and CND signed a cooperation agreement, whereby the former contracts the latter to build infrastructure works under a public works

concession. The contract establishes the general conditions of the relationship between the two institutions, and provides that, inter alia, the concession holder will contract works following similar procedures to public sector procedures, and that each contract will require MTOP approval. The CVU therefore contracts private companies through a competitive process with DNV oversight. Pursuant to the concession contract, the CVU will receive financing from loan operation UR-L1153 to finance the execution of works agreed to under the framework of this loan operation.

2.2 CVU management is based on process management, supported by a comprehensive management manual, certified according to quality standards.

2.3 The executing agency's systems are described below:

2.4 **Budget:** The CVU has two sources of financing: MTOP subsidies and toll collection. The local contribution under this operation refers to payment of the Value-Added Tax (VAT) on the works.

2.5 **Treasury:** Transfers arranged by CND deposit to the CVU's independent bank accounts at Banco de la República Oriental del Uruguay (BROU), from which the CVU manages project execution of the different projects it implements under the framework of the concession contract.

2.6 **Accounting and financial reporting:** The CVU uses a SAP integration platform, and has CND support for accounting management of its operations as provided for in a Service Agreement between the two parties.

2.7 **Internal control:** An internal audit unit operates under CND authority. Its responsibilities include conducting annual reviews of CVU operations, including both transactions and processes, and which may include those financed with resources provided by multilateral agencies.

2.8 **External control:** The CVU financial statements are audited annually by an independent auditing firm. The projects it executes also undergo annual financial audits.

III. FIDUCIARY RISK EVALUATION AND MITIGATING ACTIONS

3.1 Based on the knowledge of CVU capacities and the CVU's experience implementing Bank-financed programs, the fiduciary risk profile of this operation is low. Because it is considered low risk in fiduciary terms, minimal follow-up actions will be required to strengthen the control environment and to ensure efficient and effective use of the resources, which will be identified during project execution through procurement and financial management monitoring activities.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

4.1 **Exchange rate:** for purposes of reporting in dollars, the exchange rate on the date the CVU makes payments to contractors will be used, specifying the conversion method referenced in Art.4.10 (b) (ii) of the Loan Contract General Standards.

4.2 **Audited financial statements:** are to be presented within 120 days of the end of each year. The terms of reference should be agreed upon with the Bank, and the auditing firm acceptable to the Bank, specifying the submission deadline referenced in Art. 7.03 of the Loan Contract General Standards.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

5.1 The Bank procurement policies applicable to all planned procurement activity under this operation are: Policies for the Procurement of Goods and Works (document GN-2349-9) and Policies for the Selection and Contracting of Consultants (document GN-2350-9). These will be incorporated into the Procurement Plan, which will cover at least the first 18 months, and will be updated annually thereafter. That procurement plan will be registered, approved, and entered into the Procurement Plan Execution System (SEPA) before initiating procurements. Once registered, it will be updated annually or as necessary in the event of substantive changes to the original plan.

5.2 The appropriateness of the expenditure, i.e., the terms of reference, technical specifications, and budget, is the responsibility of the project's sector specialist, and always requires prior no objection for the start of the procurement process, based on the Project Team Leader's operational criteria.

A. Procurement execution

5.3 **Procurement of works, goods, and nonconsulting services**:[1] Based on the nature of the planned repair and maintenance works, the CVU has developed standard bidding documents (SBDs) appropriate for this type of contract, incorporating financing agencies' requirements, including the Bank's. International competitive bidding (ICB) and national competitive bidding (NCB) will be executed using these SBDs, once reviewed and approved by the Bank.

5.4 **Consulting firms:** Will be selected and contracted in accordance with the IDB policies. Internationally publicized requests for proposals (value greater than US$200,000) will be subject to ex ante review.

5.5 **Selection of individual consultants:** Consultants will be chosen based on Section V of the Policies for the Selection and Contracting of Consultants (document GN-2350-9).

5.6 The following threshold amounts apply to bidding in Uruguay:

Table 1. Threshold amounts applicable to bidding in Uruguay:

Works			Goods and services			Consulting	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity consulting	Short list 100% national
≥ 3,000,000	≤ 3,000,000 ≥ 250,000	≤ 100,000	≥ 250,000	≤ 250,000 ≥ 50,000	≤ 50,000	≥ 200,000	≤ 200,000

5.7 In accordance with Section 1.9 of the Policies for the Procurement of Goods and Works (document GN-2349-9), the executing agency may carry out the bidding process before the loan is approved. Pursuant to the same section of document

[1] Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (document GN-2349-9), paragraph 1.1. Non-consulting services are treated like goods.

GN-2349-9, "a Borrower undertakes such advance contracting at its own risk, and any concurrence by the Bank with the procedures, documentation, or proposal for award does not commit the Bank to make a loan for the project in question." An advance contracting process may be considered eligible if it is appropriately registered and documented in the executing agency's systems, and if it has been conducted in accordance with Bank Policies or similar procedures aligned with applicable Bank policy provisions. The CVU indicated that it does not expect to use the retroactive financing mechanism.

B. Main procurements

5.8 Procurement activities identified for this operation will be divided as indicated in the table below:

Table 2. Procurement activities for this operation

Work	Route	Description	Base price	Type of bid
1	4	Tala - Baygorria Road_Segment1	2,608,478	ICB
2	4	Baygorria - Route 20_Segment2	4,765,488	ICB
3	41	Route 6 (0k 000) - 22k 080 _Segment1	6,008,159	ICB
4	41	22k 080 - Route 7 (38k 300) _Segment2	4,141,494	ICB
5	43	Route 5 (306K 600) - Route 59 (28k 600) _Segment1	7,915,046	ICB
6	43	28k600 - San Gregorio (54k 600) _Segment2	6,535,502	ICB
7	90	Route 25 (71k 700) - Guichón	6,985,407	ICB
8	90	Piedra Colorada - R25	3,901,353	ICB
9	59	0k 000 - 19k 380 _Segment1	5,190,117	ICB
10	59	19k 380 - 39k 350 _Segment2	5,522,198	ICB
11	5	Río Yí Bridge	8,244,600	ICB

5.1 **Procurement supervision:** in view of the executing agency's experience and performance, procurement activities will be subject to ex post review, except in cases in which ex ante review is justified, which will be explicitly identified in the procurement plan. Ex post reviews will be done every 12 months, in accordance with the project supervision plan. The table below identifies the applicable thresholds in regard to the above:[2]

Table 3. Threshold Limits

Threshold for ex post review (US$)		
Works	Goods	Consulting services
≥3,000,000	≥250,000	≥200,000

5.9 **Records and files:** program reports should be prepared and filed using agreed upon formats or procedures, which are described in the project Operating Regulations, and are consistent with relevant policy requirements.

[2] Note: The thresholds established for ex post review are applied based on the executing agency's fiduciary capacity for execution and may be modified by the Bank as that capacity changes.

VI. Financial Management Agreements and Requirements

A. Programming and budget

6.1 The CVU's financial programming is established in Annex I of the framework of the concession contract, dated 23 October 2015, which establishes the concession's revenue-expense flow through 2035. Annual programming is defined according to the MTOP investment plan. The local counterpart program resources are included in the MTOP-DNV budgetary allocation.

B. Accounting and information systems

6.2 Program accounting will be carried out in accordance with international financial information standards. Specific program accounts will be established to receive funds disbursed by the Bank, as well as resources applied to eligible program costs.

6.3 The CVU will prepare program financial statements in accordance with the IDB guidelines contained in the Audited Financial Reports and External Audit Management Manual.

C. Advances, disbursements and cash flow.

6.4 Bank financing will be disbursed to a special account at the Central Bank of Uruguay (BCU). From there it will be transferred to a BROU account exclusively for the program, from which the CVU will make payments to the respective suppliers and contractors. Disbursements will be based on a semiannual expense schedule.

6.5 To minimize the risk of slowdown of program execution, and taking into account the internal authorization process, the minimum percentage of expenditure justification to process a new disbursement will be 70%.

6.6 For program execution, the CVU will be allowed an administrative cost of 2.2% of the budget allocated to infrastructure and institutional strengthening components. To that effect, to the extent the CVU uses resources chargeable to those components, it will apply resources for administrative costs. Whenever an expense justification request is prepared, the amount for this purpose will be withdrawn from the program bank account and will be reported to the Bank on a single line on the expense statement, without need to detail the concepts it covers.

D. Internal control and audit

6.7 The CVU maintains a control environment focused on systematizing its processes and defining formalized internal control procedures, available on its intranet portal. The CND Internal Audit Unit also carries out periodic reviews of CVU processes, which may look into Bank-financed processes if done on the basis of sampling. If necessary, program-related internal audit reports may be consulted by coordinating with the CVU.

E. External control and reports

6.8 The CVU will deliver financial audit reports and the corresponding internal program control report to the Bank annually, no later than April 30 of the following year. The financial audit report at the close of the project should also be

delivered within 120 days of the date of the final disbursement. Contracting of the auditing firm, as well as the corresponding terms of reference should follow the Financial Management Guide for IDB-financed projects (document OP-273-6). Audit costs may be financed with loan resources.

F. Financial supervision plan

6.9 The financial supervision plan looks at the participation in monitoring sessions of the program risk matrix and review of the annual audit report, which may result in on-site visits to update knowledge of internal systems.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Uruguay. Conditional Credit Line for Investment Projects (CCLIP) (UR-O1155)
Program to Improve Road Corridors for Agroindustry and Forestry

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, to enter into such agreement or agreements as may be necessary with the Corporación Nacional para el Desarrollo, as borrower, and with the Eastern Republic of Uruguay, as guarantor, to establish the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Improve Road Corridors for Agroindustry and Forestry (UR-O1155) for an amount of up to US$200,000,000 chargeable to the resources of the Bank's Ordinary Capital.

2. To determine that the resources allocated to the above-mentioned Conditional Credit Line for Investment Projects (CCLIP) for the Program to Improve Road Corridors for Agroindustry and Forestry (UR-O1155), shall be used to finance individual loan operations in accordance with: (a) the objectives and regulations of the Conditional Credit Line for Investment Projects approved by Resolution DE-58/03, as amended by Resolutions DE-10/07, DE-164/07, and DE-86/16; (b) the provisions set forth in documents GN-2246-9 and GN-2564-3; and (c) the terms and conditions included in the Loan Proposal for the corresponding individual operation.

(Adopted on __ __________ 2019)

LEG/SGO/CSC/EZSHARE-1028536987-10950
UR-O1155

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Uruguay. Loan ____/OC-UR to the Corporación Nacional para el Desarrollo. Conditional Credit Line for Investment Projects (CCLIP) (UR-O1155). First Operation: Program to Improve Road Corridors for Agroindustry and Forestry (UR-L1153)

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 Corporación Nacional para el Desarrollo, as borrower, and with the Eastern Republic of Uruguay, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the Program to Improve Road Corridors for Agroindustry and Forestry, which constitutes the first individual operation under the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Improve Road Corridors for Agroindustry and Forestry approved on __________ 2019 by Resolution DE-___/19. 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 __ ___________ 2019)

LEG/SGO/CSC/EZSHARE-1028536987-10949
UR-L1153