

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

COLOMBIA

PUBLIC-PRIVATE PARTNERSHIP PROGRAM IN IIRSA

(CO-M1004)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Claudia Stevenson (RE3/FI3), Team Leader; Asako Yamamoto (MIF); Leonardo Da Silva (MIF); Jairo Salgado (COF/CCO); Nicholas Livingston (Consultant); Jerónimo Frigerio (LEG); and Isabel Cardona (RE3/FI3).

CONTENTS

I.	EXECUTIVE SUMMARY	
II.	BACKGROUND.....	2
III.	PROJECT OBJECTIVES AND BASIC COMPONENTS.....	5
IV.	COST AND FINANCING	8
V.	EXECUTING AGENCY AND IMPLEMENTATION MECHANISM.....	9
VI.	MONITORING AND EVALUATION.....	11
VII.	PROJECT BENEFITS AND RISKS.....	12
VIII.	ENVIRONMENTAL AND SOCIAL FEASIBILITY	12

ANNEXES

Annex I	Logical framework
Annex II	Itemized budget
Annex III	Similar and related projects

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE RE3/FI3 FILES

PREPARATION:

Law 105 of 1993: Transportation Act.

Decree 1800 of 2003: Creating the *Instituto Nacional de Concesiones* [National Concessions Board] and establishing its structure.

Decree 2170 of 2003: Infrastructure Procurement Methods

Livingston, Nick. *Programa de Asociación Público Privada en Colombia* [Public-Private Partnership Program in Colombia]. Washington, D.C., 2004.

Booz Allen Hamilton. *Diseño y Estructuración de una Entidad del Nivel Central Encargada de la Administración y Gestión de Proyectos de Transporte con Vinculación de Capital Privado* [Design and Structuring of a Central Entity Responsible for the Administration and Management of Transportation Projects Linked to Private Capital]. Bogota, 2003.

Departamento Nacional de Planeación [National Planning Department]. CONPES Document 3107 *Política de manejo de riesgo contractual del estado para procesos de participación privada en infraestructura* [State Contractual Risk Management Policy for Private Participation in Infrastructure]. Bogota, September 2001.

EXECUTION:

Terms of reference for the institutional assessment of INCO and the preparation of training workshops.

Terms of reference for the assessment of the legal and regulatory frameworks

Terms of reference for evaluations

ABBREVIATIONS

Conpes	Consejo Nacional de Política Económica y Social [National Council on Social and Economic Policy]
DNP	Departamento Nacional de Planeación [National Planning Department]
IIRSA	Initiative for the Integration of South American Regional Infrastructure
INCO	Instituto Nacional de Concesiones [National Concessions Board]
INVIAS	Instituto Nacional de Vías [National Highway Administration]
MAVDT	Ministry of the Environment, Housing, and Land Development
MHCP	Ministry of Finance
PPP	Public-Private Partnership

PUBLIC-PRIVATE PARTNERSHIP PROGRAM IN IIRSA
(CO-M1004)

I. EXECUTIVE SUMMARY

Beneficiary:	Instituto Nacional de Concesiones (INCO)	
Executing agency:	Instituto Nacional de Concesiones (INCO)	
Direct beneficiaries:	a) The Colombian government, by strengthening its institutional framework for the development of PPP infrastructure projects with greater value-added; b) the Colombian population, by enhancing availability and efficiency in the provision of infrastructure services; and c) the private sector, by expanding business opportunities.	
Financing:	MIF	US\$420,000 ¹
	Local:	<u>US\$270,000</u>
	Total:	US\$690,000
Objectives:	The goal of the program is to promote private investment in infrastructure through public-private partnerships in the transportation sector, increasing investment in the sector and reducing transaction costs. The specific objective is to support INCO in innovation and development of PPP programs for the execution of projects.	
Description:	The project will support the execution of five components: i) review of the regulatory framework; ii) review of the institutional framework; iii) identification and review of sector projects and policies; iv) institutional strengthening and training; and v) establishment of monitoring, follow-up, and dissemination systems.	
Execution schedule:	Execution period:	24 months
	Disbursement period:	30 months
Environmental and social review:	The Committee on Environment and Social Impact (CESI) reviewed the program on 12 August 2005. No specific actions are required in addition to those set out in the document.	

¹ US\$20,000 has been included for MIF activities related to the PPP Cluster: Action Plan for groups of MIF projects: Support competitiveness through Public-Private Partnerships.

Coordination with other official development agencies:	The strategy to support private participation has been coordinated with other agencies that provide support to the government, particularly the World Bank and the Andean Development Corporation (CAF).
Special contractual conditions:	None.
Exceptions to Bank policies:	None.

II. BACKGROUND

- 2.1 Colombia has a long tradition of executing infrastructure projects with private participation. The introduction of the concession system in the transportation sector has led to significant investments by the private sector. In the highway sector, US\$2.6 billion was invested between 1993 and 2003, and 15 road concessions, four port concessions, four airport concessions, and two railway concessions are currently operating. Colombia has been one of the region's leaders in transferring investment and operations to the private sector. The results of the concession processes have been successful in terms of meeting their goals, but problems have arisen relating to proper distribution of risk, overestimation of project demand, and weaknesses in contractual areas such as arbitration mechanisms, early termination, etc.
- 2.2 The concession process for transportation projects has developed dynamically where policy has been modified based on lessons learned from existing projects, making for progressive improvements to the frameworks for risk transfer and assignment of responsibilities. The various revisions of the concessions framework have been taken to the Consejo de Política Económica y Social [National Council on Economic and Social Policy] (CONPES) and are referred to as Second and Third Generation Concessions.
- 2.3 Colombia currently has a legal and regulatory framework that has allowed it to attract private investment in infrastructure, particularly transportation. Current legal standards include the Ports and Harbors Act (Law 1 of 1991), establishing the foundation for applying concession systems to the port sector, the Procurement Act (Law 80 of 1993), establishing guidelines for private participation in infrastructure, the Transportation Act (Law 103 of 1993), establishing guidelines for carrying out transportation projects with private sector participation, the Environment Act (Law 99 of 1993), and its regulatory decree 1180 of 2003.

- 2.4 Colombia has made a recent change in its traditional institutional framework for transportation concessions by creating the Instituto Nacional de Concesiones [National Concessions Board] (INCO) in 2003, in order to bring the work of promoting, preparing, supervising, and administering transportation sector concessions together under a single agency. INCO is a national public agency attached to the Ministry of Transportation, with legal status, assets of its own, and administrative and financial autonomy. As its primary duties, the institute is responsible for defining the strategy for linking private capital to private sector development, the identification and selection of projects, their technical, legal, and financial structuring, their promotion among domestic and international investors, the management of bidding processes, the management and administration of concession projects awarded, and their economic, financial, social, and environmental evaluation. In this regard, INCO integrates part of the vast experience of the National Highway Administration (INVIAS) with respect to roadway concessions, and assumes additional responsibilities with respect to the processes of private participation in the transportation sectors. Under this new institutional framework, INVIAS is basically focused on the execution of all public projects, while INCO is focused on the promotion, structuring, and administration of PPP projects.
- 2.5 As a result of the work done in the Region through the IIRSA Initiative² on defining groups in the Integration and Development Hubs project portfolio, priority integration projects were identified within the IIRSA framework in Colombia. For these projects, private sector participation gains greater relevance under innovative systems such as PPP programs that allow optimal use of limited resources and properly distribute the risks inherent in the projects, particularly projects whose nature or impact is transnational.
- 2.6 Since its creation in 2003, INCO has assumed the role of mobilizing private investment for the provision of infrastructure and related services in Colombia. Although INCO has the technical and human resources to meet its objectives, Colombian experience with private sector participation in infrastructure projects has shown that the public and private sectors require new mechanisms for exploring novel manners of providing infrastructure. For these reasons, INCO must come up with new project development strategies through Public-Private Partnership strategies, by incorporating international expertise and recent experiences.
- 2.7 The projects identified for management with private sector participation cannot be financed solely by means of tolls or market instruments, and in projects like those

² The Initiative for the Integration of South American Regional Infrastructure (IIRSA) began with the mandate of South American presidents to work toward a more integrated South America in its infrastructure sectors, as an instrument to achieving greater regional economic and commercial development. In this regard, an Action Plan has been developed based on the use of Integration and Development Hubs as focal points for planning and identifying integration projects, in which current and potential trade flows determine the areas of influence.

under the IIRSA Initiative, there are uncertainties regarding demand. For these reasons, the Colombian government must turn to new procurement methods to finance infrastructure projects. Likewise, given the high transaction costs of the operations, methodologies must be incorporated to evaluate the cost-benefit ratio of these types of projects and ensure that a PPP framework is the most efficient.

- 2.8 In this regard, the new models of financing through PPPs are particularly relevant to Colombia. The model being considered is the results-based model.³ The main feature of this model is that the public sector agrees to a series of payments in exchange for a set of services, and it is not driven exclusively by tolls or user charges. This framework is characterized by payment based on results, rather than payment for inputs, and by the assumption of the primary risks, such as design, construction, financing, and maintenance, by the private sector. In this regard, the public sector: i) transfers most of the risk to its private counterpart, ii) is able to finance projects that are economically viable but with uncertain commercial potential, iii) allows the financing of assets throughout their entire useful life, and iv) procures goods and services with sustainability and quality over the long term.
- 2.9 Although the Colombian government has experience in transportation concessions, it does not have experience with or knowledge of the most recent PPP frameworks, and requires tools to select the most viable projects for implementation under this system. The program will promote INCO's development of tools to identify and select the projects that generate the greatest benefits when carried out under this system and that incorporate recent international advances in the field.
- 2.10 The benefits in applying public resources from the PPP framework in terms of Value for Money⁴ are incorporated into procurement methodologies (elimination of cost overruns and delays), efficiency and innovation incentives, and the integration of the benefits over the useful life of the project, ensuring the quality of service and the maintenance of the asset over the life of the contract.
- 2.11 The project forms part of the Bank's strategy for the transportation sector in Colombia, where the primary challenges are: (i) increasing public and private investment in reconstruction and restoration of the highway system, (ii) defining duties and strengthening management of central government and local institutions, and (iii) enhancing security. In the sector, the Bank supports (i) the institutional strengthening of the sector, particularly through actions aimed at introducing various methods of private participation. With respect to IIRSA, the Bank will support: (i) actions aimed at carrying out integration and development projects, and (ii) the resolution of bottlenecks related to the regulatory frameworks. The project is

³ In the United Kingdom it is called Output-Based, and it includes design, construction, financing, and operation.

⁴ Value for Money (VFM) is not about achieving the lowest price but about achieving the optimum combination of whole life costs.

consistent with the Bank's strategy with the country, particularly because the program addresses the objectives of increasing private investment and supporting the IIRSA Initiative.

- 2.12 The Bank's support for the sector has been structured based on a series of complementary operations. In addition to this operation supporting INCO, the Bank has approved two operations to Support Concessions in Infrastructure: Technical-cooperation Loan in Support of Privatization and Concessions in Infrastructure (CO-0179) and Technical-cooperation Loan in Support of Privatization and Concessions in Infrastructure Second Stage (CO-0263), with the *Departamento Nacional de Planeación* [National Planning Department], with the following objectives: i) to consolidate and sustainably strengthen the technical and institutional capacity of policy, regulatory, and oversight agencies in the infrastructure sectors, and ii) to support the development of new processes for private participation in infrastructure. The lessons learned from the first stage show that to attract private investors to infrastructure projects, a key factor is having solid, timely studies that address technical, legal, economic, social, and environmental considerations. This program will support the prior operations by providing institutional strengthening to the agency responsible for the coordination and execution of the private participation policies through PPP.
- 2.13 The proposed program is part of the Action Plan Supporting Competitiveness through Public-Private Partnerships (MIF/GN-107). In this context, the program includes funds for the exchange of information on a new network of PPP projects.

III. PROJECT OBJECTIVES AND BASIC COMPONENTS

- 3.1 The specific objective of the program is to promote innovative, efficient mechanisms that provide an incentive for private investment in transportation infrastructure, such as the public-private partnership frameworks. The specific objective is to support the National Concessions Board (INCO) in developing the capacity to innovate and develop public-private partnership frameworks for projects execution. To do so, the technical assistance will select a pilot PPP project in which the methodologies and analysis to be included in the training for this technical-cooperation project will be applied.
- 3.2 **Component I: Review of the regulatory framework** for the implementation of Public-Private Partnerships (MIF US\$40,000, INCO US\$40,000). Under this component, legal consultants will be hired to review the existing institutional framework in order to identify obstacles that could prevent Public-Private Partnership projects from being carried out efficiently in the Colombian transportation sector. The legal consulting work will focus on the areas that directly affect the selection and implementation of the pilot project, particularly the bidding on large infrastructure projects and the management of budgetary

commitments for payment of services over periods greater than 10 years. The primary objective will be to facilitate the process without major legal reforms. The legal consultants will identify the critical amendments to be made to the Law or its Regulatory Decrees, and will draft the proposed amendments.

- 3.3 **Component II: Review of the institutional framework** (MIF US\$30,000, INCO US\$20,000). This component's resources will be used to hire expert consultants to review INCO's operating practices, particularly with respect to other relevant institutions such as the Ministry of Transport, MHCP, DNP, INVIAS, MAVDT, and other transportation sector institutions, in order to identify and develop projects, in light of the best practices in the field. When countries move to national PPP programs, the need is created to evaluate and monitor projects through a central entity, which can promote the best projects and filter out projects with lesser potential. A decision-making process must be established, with the consensus and collaboration of the other institutions involved, in order to determine criteria for project selection and implementation so PPP framework objectives are met. As part of this component, the consultants will review human resources, the availability of technical, legal, and financial expertise, and the existing structure for managing and promoting projects, strengthening coordination mechanisms, particularly with national and regional environmental authorities, and proposing mechanisms for implementing the proposals.
- 3.4 **Component III: Identification and review of sector projects and policies.** (MIF US\$100,000, INCO US\$40,000). This component's resources will be used to finance consulting resources providing expertise in developing PPP projects in an international context and knowledge of the national and regional transportation sector (road, railways, waterways, ports, border crossings, and logistics centers), with the goal of selecting a pilot project for development. This selection work would be undertaken jointly with the other institutions involved, and the consultants will seek to reach a consensus with the Colombian government in defining the following: a) project selection criteria and methodologies to be applied in these processes (sector, investment amount, national and regional objectives, environmental and social impacts), b) readiness review (preliminary feasibility and feasibility studies, environmental impact assessments, regional integration impact assessments, demand studies, etc.).
- 3.5 Based on the selection, a short list of potential projects will be identified for execution through PPPs. This short list will be analyzed in terms of sustainability and value-added if carried out under a PPP framework, taking into consideration the investment cost/transaction cost ratio, competitive options, technical characteristics, socioenvironmental impacts, and compatibility with payment for product systems. The projects in the IIRSA portfolio will have priority in this portfolio, and an environmental strategy will be developed to respond to the sociocultural and environmental diversity in the areas of influence of the Andean and Amazon Multimodal hubs. As a result of this process, a pilot project will be selected for

development as part of this cooperation, using a “hands-on learning” approach and the training workshops described below. The pilot project will also include the development of an environmental and social strategy within the hubs’ areas of influence.

- 3.6 Since most of the projects involve the restoration of existing roadways and rapid solutions to bottlenecks, major negative impacts on the environment or large scale indirect impacts are not expected.
- 3.7 **Component IV:** Institutional strengthening and training. (MIF US\$200,000, INCO US\$90,000. This component’s resources will be used to develop methodologies and techniques for structuring PPP projects, including legal, contractual, technical, and financial considerations. To do this, a consulting firm with expertise in recent international PPP developments and knowledge of the Colombian infrastructure market will be hired to support INCO’s team by transferring its knowledge on each of the stages in the pilot project preparation process. Training will begin with an introductory workshop presenting the primary considerations relevant to structuring a PPP framework and developing guidelines for a “Colombian PPP model.” Each of the specific considerations will be developed in subject-specific workshops addressing issues including preparing product specifications, preparing basic business plans, evaluation and allocation of risk, treatment of environmental and social considerations, and legal and contractual considerations, among others. Knowledge transfer and training will be undertaken based on the selected pilot project, using a “learn-as-you-go” approach. One of the primary objectives of this training is to train INCO staff in establishing methodologies for developing benchmark projects to evaluate the costs and benefits of carrying out projects using PPP frameworks, and to select the projects with potentially the best “value for money”. The consulting firm will also provide the INCO staff with support in hiring the consultants required to structure the project (financial, technical, and legal consultants). The consulting firm will support INCO in supervising the consultants hired for this purpose.
- 3.8 The primary training activities to be undertaken are: a) basic aspects of the PPP model, including a study of experiences in other countries, identification of the potential in Colombia, and the definition of institutional, technical, financial, socioenvironmental, and legal requirements; b) thematic workshops on critical issues, preparing technical product specifications, economic and financial evaluation of business plans, evaluation and allocation of risk, developing benchmark projects and calculating “value for money,” payment mechanisms, legal considerations, financial structures, environmental and social considerations, including, among others, environmental risk management, and the consideration of innovative instruments such as environmental insurance and risk mitigation in infrastructure projects, the procurement process, and managing independent expert consultants; c) activities related to hiring independent consultants for specific issues, such as the design of terms of reference, the selection and definition of tasks,

and d) support for INCO in the management of independent consultants to perform the following activities related to the pilot project: preparing the benchmark project, business plan, and financial strategy, defining product specifications, designing the legal structure, demand and market studies, review of the project's financial sustainability, and the incorporation of innovative instruments such as environmental insurance for environmental risk management.

- 3.9 **Component V: Establishment of a program for monitoring, follow-up, and dissemination of results.** The monitoring system must guarantee the application of best practices and lessons learned to future projects. The project evaluation methodologies, in terms of "value for money," must establish indicators that make it possible to monitor projects and compare their efficiency and competitiveness with those of projects undertaken using traditional methods. The factors considered for the establishment of monitoring criteria are: (i) design of the benchmark project, (ii) design of project performance criteria, (iii) design of indicators for monitoring environmental and social impact, and (iv) design and implementation of the program's monitoring systems.

IV. COST AND FINANCING

- 4.1 This nonreimbursable technical-cooperation program will have a budget of US\$690,000, consisting of MIF contributions of US\$420,000, and a local counterpart contribution of US\$270,000, broken down into US\$135,000 in cash contributions and the same amount in kind, as shown in the table below. The program includes US\$20,000 for MIF PPP cluster activities, not included in the total amount of the operation. The operation will have an execution period of 24 months and a disbursement period of 30 months. INCO's 2005 budget has a provision for making the payments required during the execution period.

Cost Table
(US dollars 000s)

Description	MIF	Local Counterpart			Total
		In cash	In kind	Subtotal	
Component I: Review of regulatory framework	30.0	20.0	20.0	40.0	70.0
Component II: Institutional framework	30.0		20.0	20.0	50.0
Component III: Identification and review of sector projects and policies	100.0	40.0	30.0	70.0	170.0
Component IV: Institutional strengthening and training	200.0	40.0	50.0	90.0	290.0
a. Basic concepts of the PPP model	40.0	15.0	10.0	25.0	65.0
b. Specific workshops on the pilot project	90.0	15.0	10.0	25.0	115.0
c. Support in hiring specific consultants	10.0		15.0	15.0	25.0
d. Support in monitoring consultants	60.0	10.0	15.0	25.0	85.0
Component V: Establishment of monitoring, follow-up, and dissemination systems	20.0	35.0	10.0	45.0	65.0
Program coordination	0		5.0	0	5.0
Evaluation and audits	20.0		0	0	20.0
a. Midterm and final evaluations	12.0		3.0		
b. Audits	8.0				
PPP cluster activities	20.0				20.0
Total⁵	420.0	135.0	135.0	270.0	690.0
Percentage	60%	20%	20%	40%	100%

- 4.2 The 2005 budget has an entry of approximately US\$600,000 for studies and advisory assistance, which will cover the counterpart contribution in cash, and INCO will include a similar amount under this line item in its 2006 budget.
- 4.3 Once the program is completed, INCO staff will apply the methodologies and systems developed by the program, using the institution's own resources, for projects that INCO is scheduled to carry out in the short and medium term.

V. EXECUTING AGENCY AND IMPLEMENTATION MECHANISM

- 5.1 The executing agency for the program will be INCO. This task will be coordinated by the latter's general manager, who will appoint a professional to take responsibility for: (i) coordinating and supervising all consultants and firms assigned tasks related to project activities; (ii) preparing the necessary action plans and itemized budgets for the project components; (iii) preparing periodic progress reports for the Bank, which must include semiannual financial reports (for the

⁵ The program has financing of US\$20,000 for Public-Private Partnership Cluster activities, which is not included in the total amount for the operation.

- periods ended 30 June and 31 December of each year) on funds allocated and disbursed (both for MIF payments and the contributions in cash and in kind) for this program; and (iv) processing the respective disbursement requests and expense documentation, in accordance with Bank disbursement procedures.
- 5.2 INCO will manage an independent project budget and will keep separate accounting records for control and administration of project resources. Project resources may not be used for purposes other than those intended. INCO will be responsible for the program's technical implementation, will select the consultants, and make the applicable contractual and administrative decisions. When evaluating consultants' proposals, INCO will set up a technical committee in accordance with Bank policy.
- 5.3 INCO will open two separate accounts with a local bank: one for the MIF funds, and another for the local counterpart funds to be used specifically for this MIF program. The funds will be disbursed through payments from INCO to the consultants and suppliers in accordance with the payment schedule previously established in their contracts, subject to Bank approval. The funds will be disbursed from a revolving fund to be set up in an amount equivalent to 20% of the MIF contribution.
- 5.4 **Accounting system.** INCO will establish and maintain accounting, financial, and internal control systems to identify the source and application of program funds in accordance with Bank policy. The accounting system will be organized to provide the necessary documents, allow verification of transactions, and facilitate the timely preparation of reports and financial statements. Program records must: (i) identify the amounts received from different sources; (ii) report project outlays in accordance with the chart of accounts previously approved by the Bank, which will segregate MIF contributions from counterpart contributions; and (iii) provide details describing the services engaged, as well as their use.
- 5.5 **Financial audits.** INCO will prepare and submit the final project financial statements to the Bank within ninety (90) days following the end of the program's execution period and before the deadline for the last disbursement. These financial statements will be audited by an independent external auditor acceptable to the Bank and hired with terms of reference approved in advance by the Bank. The costs of the audit will be financed out of the MIF contribution.
- 5.6 **Procurement.** For consulting and training services and goods procured with MIF resources, the coordinating unit must follow all rules, policies, and procedures established by the Bank for such purposes. The coordinating unit will develop a procurement plan to be approved by the Bank. The coordinating unit will engage consulting services using the method of selection based on consultants' qualifications (CQS), in accordance with Bank policies on consultants (document GN-2350-5). Goods will be procured using the price comparison

method, as established in document GN-2349-4. The Bank may conduct a post review of procurement in amounts of less than US\$50,000. The first three procurement processes will be subject to prior review. A procurement plan already exists, covering the first 18 months of project execution, and will be updated every six months. The initial procurement plan is available in the technical files as Document VIII.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** INCO will prepare and submit project progress reports to the Bank's Country Office in Colombia within thirty (30) days following the close of each six-month period, and a final report within thirty (30) days following the scheduled date of the last disbursement, not to include resources disbursed for the audit. These reports will follow the format for project monitoring to be provided to INCO by the Bank, and will cover program activities and finances. They will also contain measurement results based on the indicators and reference parameters identified in the project's logical framework (Annex I), with environmental quality indicators and response and correction mechanisms. The Bank will use these reports to monitor program implementation and to prepare a Project Completion Report within three months following the end of the execution period. Supervision of the project will fall to the Bank's Country Office in Colombia, in cooperation with the project team.
- 6.2 **Evaluation.** The Bank will hire consultants to perform two evaluations of the program: a midterm and final evaluation. The midterm evaluation will be performed once the MIF has disbursed 50% of its financing. This review will determine whether program objectives are being met. Based on the midterm evaluation, the Bank's Country Office, together with the project team, will decide whether the project should continue, be suspended, or be canceled. During program execution, INCO will compile oversight and evaluation indicators for the project. These indicators are presented in the logical framework in Annex I, and will be used by the Bank's Country Office and the executing agency to measure the general impact of the program and evaluate its outcomes. These initial parameters may be revised by INCO, with Bank approval, within three months following the effective date of the contract, and will be adjusted to more accurately reflect actual conditions with a view to enhancing program evaluation.
- 6.3 The final evaluation will be carried out within three months following completion of the program, in order to evaluate its outcomes and to determine the extent to which the targets in the logical framework have been met.

VII. PROJECT BENEFITS AND RISKS

- 7.1 The project will contribute to more efficient delivery of infrastructure services and increase coverage of transportation infrastructure. The project is consistent with the MIF's function as a flexible tool for catalyzing private sector development, and complements the Bank's ongoing activities in the transportation sector. The beneficiaries of the program are: a) the Colombian government, which will have its institutional framework strengthened for the development of infrastructure projects and the delivery of public services under PPP arrangements with greater value-added, b) the people of Colombia, by enhancing availability and efficiency in the provision of infrastructure services; and c) the private sector, by expanding business opportunities in services, particularly services traditionally rendered by the State.
- 7.2 Although INCO has personnel with expertise in transportation concessions, it does not have experience or knowledge in developing PPP arrangements. The program will promote INCO's development of tools to identify and select the projects that generate the greatest benefits when undertaken through PPP systems, and the capacity to identify critical issues to be addressed in the development of such projects. Likewise, by supporting the elimination of institutional and regulatory obstacles, it will promote the implementation of more efficient projects.
- 7.3 The success of the program depends on the central government's institutional commitment to maintaining the priority of PPP projects and on INCO, as a new institution, managing to consolidate its central role in the process of selecting, preparing, and supervising PPP projects. Likewise, program sustainability depends on whether INCO staff who receive training will continue serving the institution.

VIII. ENVIRONMENTAL AND SOCIAL FEASIBILITY

- 8.1 The present technical-cooperation project seeks to provide technical assistance for project preparation and staff training, as well as incremental improvements in the existing institutional and regulatory frameworks, in the context of Public-Private Partnership (PPP) projects. Accordingly, no negative environmental or social impacts linked to this operation have been identified.
- 8.2 With respect to the review of the existing regulatory frameworks, certain legal or regulatory actions related to existing environmental considerations requiring development within the framework of PPP projects will be identified. In Colombia, as environmental and social considerations are addressed through national or regional environmental authorities operating independently as sector regulators, those environmental and social considerations related to the institutional framework will be addressed as part of the strengthening of the existing coordination mechanisms between the institutions.

- 8.3 It is proposed that the issues related to the environmental and social considerations of PPP projects be covered in greater depth and strengthened in the activities included in staff training and project preparation. To this end, the INCO staff must develop the technical capacity to ensure that contracts between public and private partners in PPP projects contain the contractual elements to assign environmental and social responsibilities, to deal with existing environmental liabilities in both the construction and operation phases, to include environmental and social criteria in the evaluation of candidate projects, and to incorporate environmental strategies for priority projects.
- 8.4 The training strategy will be undertaken through the work on a pilot project. As part of the training strategy, the use of innovative instruments, such as environmental insurance, will be considered for the management of PPP projects.
- 8.5 With respect to the environmental and social aspects of IIRSA projects with potential to be undertaken under PPPs, the projects focus on the Andean and Amazon Hubs and involve the restoration and improvement of existing roads, solutions to traffic bottlenecks, and complementary works, such as the improvement of ports and logistics centers. In structuring the projects, the project design and implementation methodologies will include direct impacts in the economic evaluations. Also, the practice of including environmental and social mitigation measures in the contractual conditions during the operation and construction stages will be maintained.

PUBLIC-PRIVATE PARTNERSHIP PROGRAM
(CO-M1004)
LOGICAL FRAMEWORK

Objectives	Indicators	Means of verification	Assumptions
Goal			
<ul style="list-style-type: none"> To support increased investment in infrastructure through the implementation of innovative, efficient PPP arrangements 	<ul style="list-style-type: none"> By the end of the first year after completion of the program, the regulatory framework is established. By the end of the third year after completion of the program, indicators of private investment in infrastructure identify investments made through PPPs. INCO has a list of projects to be undertaken using PPPs. 	<ul style="list-style-type: none"> INCO and DNP records Post review 	<ul style="list-style-type: none"> The Colombian government maintains its political commitment to promoting PPP projects for investment in infrastructure. There are no major legal obstacles to implementation of PPP projects. Macroeconomic conditions favor private investment in infrastructure.
Purpose			
To provide INCO with the institutional and technical capacity, and trained, experienced human resources to ensure the execution of efficient, higher quality PPP projects in the transportation sector	<p>By the end of the program:</p> <ul style="list-style-type: none"> The institute's staff has been trained in critical PPP issues. Interagency arrangements have been agreed upon for the structuring of PPP projects. A pilot project has been identified and workshops have been held on fundamental issues. A monitoring and dissemination strategy has been approved and implemented. 	<ul style="list-style-type: none"> Final evaluation Executing agency's final report Interagency agreements reached/signed PPP system established with agreed financing mechanisms Interagency agreements reached/signed Transportation project selected for financing with resources from the established PPP system PCR 	<ul style="list-style-type: none"> INCO's role as the central institution in the PPP project decision-making process is maintained. INCO has resources to support the preparation of PPP projects.
Components			
1. Regulatory framework for PPP implementation reviewed	<p>By month 12:</p> <ul style="list-style-type: none"> Legal and financial considerations have been identified and regulatory proposals have been drafted. <p>By month 24:</p> <ul style="list-style-type: none"> Regulatory framework agreed upon by executing agency. 	<ul style="list-style-type: none"> Legal consultants' report Midterm and final evaluations PPMRs Progress reports and final report of executing agency 	<ul style="list-style-type: none"> Suitable firms respond to the call for proposals.

Objectives	Indicators	Means of verification	Assumptions
2. Institutional framework reviewed	By month 12: <ul style="list-style-type: none"> Interagency coordination mechanisms have been established. 	<ul style="list-style-type: none"> Midterm evaluation Midterm evaluation Executing agency's progress report Interagency agreements approved and signed PPMRs PCR 	<ul style="list-style-type: none"> Relevant Colombian institutions agree on an effective decision-making structure.
3. Selection of a set of projects to be executed using PPPs and identification of a pilot project	By the end of the program: <ul style="list-style-type: none"> Definition of criteria and methodologies for PPP project selection, including social and environmental criteria Pilot project is agreed upon for application of the PPP system. 	<ul style="list-style-type: none"> Pilot project selected Progress reports and final report of executing agency Midterm and final evaluations PPMRs PCR 	<ul style="list-style-type: none"> The evaluation process is well coordinated among all institutions.
4. Training and human development program executed	By the end of the program <ul style="list-style-type: none"> Training of the staff involved in the development and use of the PPP system is complete. 	<ul style="list-style-type: none"> Training consultants' reports Progress reports and final report of executing agency Midterm and final evaluations PPMRs PCR 	<ul style="list-style-type: none"> There continues to be an institutional and financial commitment to a project and institutional management system that allows monitoring and evaluation of outcomes and captures lessons learned for future actions.
5. System for monitoring, follow-up, and dissemination of outcomes	By the end of the program <ul style="list-style-type: none"> An institutional and project-based program for monitoring, follow-up, and dissemination of outcomes has been established and implemented. 	<ul style="list-style-type: none"> Reports of consultants on monitoring and evaluation for results system Progress reports and final report of executing agency Midterm and final evaluations PPMR PCR 	

Objectives	Indicators	Means of verification	Assumptions
Activities			
Component I Activities			
i. General review to identify major obstacles ii. Definition of practical, applicable, short-term solutions related to PPP procurement issues iii. Development of legal and regulatory drafts based on experience in the pilot project	MIF US\$30,000 Counterpart <u>US\$40,000</u> Total US\$70,000 <ul style="list-style-type: none"> By the end of month 1 of technical cooperation, activity (i) will have been completed. By the end of month 3 of technical cooperation, activity (ii) will have been completed. By the end of month 18 of technical cooperation, activity (iii) will have been completed. 	<ul style="list-style-type: none"> Consulting firm reports Midterm and final evaluations Progress reports and final report of executing agency 	<ul style="list-style-type: none"> Relevant stakeholders cooperate in identifying obstacles to PPP and participate in resolving them. There are no technical, operational, or institutional obstacles to implementation of projects. Progress is made according to the established schedule. Consultants' contributions are made according to required quality standards.
Component II Activities			
i. Review of INCO's operational methods ii. Proposal for optimum PPP management structure iii. Design of procedures to identify and evaluate PPP system feasibility iv. Identification and assignment of responsibilities among INCO staff and other relevant institutions v. Design of procedures for review, reporting, and dissemination	MIF US\$30,000 Counterpart <u>US\$20,000</u> Total US\$50,000 <ul style="list-style-type: none"> By the end of month 1 of technical cooperation, activity (i) will have been completed. By the end of month 2 of technical cooperation, activity (ii) will have been completed. By the end of month 3 of technical cooperation, activity (iii) will have been completed. By the end of month 4 of technical cooperation, activities (iv) and (v) will have been completed. 	<ul style="list-style-type: none"> Consulting firm reports Midterm and final evaluations Progress reports and final report of executing agency 	<ul style="list-style-type: none"> Participating institutions assign required technical staff in a timely fashion. There are no technical, operational, or institutional obstacles to implementation of projects. Progress is made according to the established schedule. Consultants' contributions are made according to required quality standards.

Objectives	Indicators	Means of verification	Assumptions
Component III Activities i. Review of candidate projects ii. Review of sector programs and strategies iii. Review of IIRSA projects iv. Selection of pilot project	MIF US\$100,000 Counterpart <u>US\$70,000</u> Total US\$170,000 <ul style="list-style-type: none"> By the end of month 4 of technical cooperation, activities (i), (ii), (iii), and (iv) will have been completed. By the end of month 5 of technical cooperation, activity (v) will have been completed. 	<ul style="list-style-type: none"> Consulting firm reports Midterm and final evaluations Progress reports and final report of executing agency 	<ul style="list-style-type: none"> There are no technical, operational, or institutional obstacles to implementation of projects. Progress is made according to the established schedule. Consultants' contributions are made according to required quality standards. There are enough sufficiently developed potential projects to be supported with a PPP system.
Component IV Activities i. Workshop on basic issues model 1 (WS-1) ii. Thematic workshops on critical issues (WS-2) iii. External consultants procurement support iv. Support for monitoring of critical activities	MIF US\$200,000 Counterpart <u>US\$90,000</u> Total: US\$290,000 <ul style="list-style-type: none"> By the end of month 4 of technical cooperation, activity (i) will have been completed. By the end of month 7 of technical cooperation, activity (ii) will have been completed. By the end of month 12 of technical cooperation, activity (iii) will have been completed. By the end of month 18 of technical cooperation, activity (iv) will have been completed. 	<ul style="list-style-type: none"> Consulting firm reports Workshop evaluations Midterm and final evaluations Progress reports and final report of executing agency 	<ul style="list-style-type: none"> Training programs have expected outcomes both quantitatively and qualitatively. Trained staff stays with participating institutions and has proper incentive to continue with assigned responsibilities.
Component V Activities i. Development of a public sector/private sector comparator ii. Performance evaluation criteria, including social and environmental criteria iii. Design of social and environmental impact assessment and monitoring methodologies iv. Development of the information and database system necessary for the monitoring and evaluation for results system and the capture of lessons learned	MIF US\$20,000 Counterpart <u>US\$45,000</u> Total US\$65,000 <ul style="list-style-type: none"> By the end of month 6 of technical cooperation, activity (i) will have been completed. By the end of month 14 of technical cooperation, activity (ii) will have been completed. By the end of month 14 of technical cooperation, activity (iii) will have been completed. 	<ul style="list-style-type: none"> Consulting firm reports Internal monitoring and monitoring methodologies manuals Midterm and final evaluations Progress reports and final report of executing agency 	<ul style="list-style-type: none"> Participating institutions maintain interest in and commitment to monitoring and evaluating the program and results-based institutional development, and incorporating lessons learned into future actions.

Objectives	Indicators	Means of verification	Assumptions
v. Implementation of the monitoring for results system, including social and environmental criteria	<ul style="list-style-type: none">By the end of month 18 of technical cooperation, activity (iv) will have been completed.		

**RELATED PROJECTS IN COLOMBIA AND PUBLIC-PRIVATE PARTNERSHIPS
PUBLIC-PRIVATE PARTNERSHIP PROGRAM IN IIRSA
(CO-M1004)**

A. Similar or related MIF projects

None

B. Similar or related Bank projects

Project number / date of approval	Title of project, executing agency and amount	Date of signing and original period of disbursement in months	Amount disbursed	Comments
CO 0263 December 1, 2004	Support of Private Participation and Concessions in infrastructure		250,000	

C. MIF projects relating to the same sector or beneficiaries

None

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-___/05

Colombia. Nonreimbursable Technical Cooperation ATN/MT-____-CO
IIRSA Public-Private Partnerships Program

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Instituto Nacional de Concesiones (INCO), and to take such additional measures as may be pertinent for the execution of the project proposal contained in document MIF/AT-____ with respect to technical cooperation for the IIRSA public-private partnerships program.
2. That up to the amount of US\$420,000, or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

LEGIII/CO-626954-05
CO-M1004