MUNICIPAL DEVELOPMENT PROGRAM III

(UR-0111)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR:	The Eastern Republic of Uruguay
EXECUTING AGENCY:	Oficina de Planeamiento y Presupuesto [Planning and Budget Office] (OPP)

AMOUNT AND SOURCE:	IDB:	US$54.6 million (70%)
	Local counterpart funding:	US$23.4 million (30%)
	Total:	US$78.0 million
FINANCIAL TERMS AND CONDITIONS:	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	5 years
	Term for physical start-up of work:	3 years 9 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.5%
	Currency of the loan:	U.S. dollars

OBJECTIVES: The central objective of the program is to increase the efficiency of Uruguay's departmental governments by consolidating them as decentralized governing institutions which can promote local development. The specific objectives are: (a) to strengthen the technical, financial and city-works-and-services management capabilities of departmental governments, and (b) to attend to the most pressing needs of departments in the interior for investment in municipal works and services.

DESCRIPTION: To attain its objectives, the program will finance projects for investment in urban development and institution-strengthening in the 18 departments of the country's interior. The program is divided into two components: (a) an **institution-strengthening** component (US$6.5 million), to finance administrative and financial management systems and training in the departmental governments and intermunicipal cooperation projects; and (b) an **investment projects** component (US$60 million), to fund projects in the sectors of barrio improvement, urban streets and roads, drainage, sanitation and city services, in addition to promoting productive activities.

Inasmuch as this will be the last operation the Bank will be financing that will entail nonreimbursable transfers to municipalities, provision has been made in the program for a study on municipal government functions, and alternatives for funding local investments.

The program will require each departmental government to submit a strategic development plan, as an instrument to guide investment decisions toward a package of cohesive objectives. These plans, which are drawn up by each government in consultation with representative sectors of the local community, emphasize the forging of a shared vision as to local economic potentialities and a dovetailing of public- and private-sector efforts.

As a means of furthering the objectives of the program, funding for the investment component will be allocated in two stages. In a first phase, 70% of the funds for investments will be distributed on the basis of department size and population. The remaining 30% will be allocated at a second stage, to reward departmental governments that have attained the targets with respect to (a) real increases in own resources; (b) reductions in personnel costs; (c) increases in investment spending; and (d) implementation of cost-control systems.

ENVIRONMENTAL CLASSIFICATION: The Environment Committee has classified this as a Category III operation. On October 8, 1996, the Committee approved the program's environmental summary, which was forwarded to the Public Information Center on October 16, 1996.

BENEFITS: Investments under the program are designed to help improve the quality of life for some 350,000 residents of the country's interior. Of these, approximately 175,000 are members of households with unmet basic needs (UBNs), the total number of such households in the interior being 550,000. This is estimated to represent at least a 20% reduction in the number of households with UBNs as a result of barrio improvement, sanitation and other program investments which will improve housing and health conditions of the population with UBNs.

By means of actions such as those seeking to improve physical conditions and infrastructure in urban centers, and proactive local development planning efforts on the part of municipal governments, it is hoped to create an enabling environment for private

investment and, accordingly, promote development in departments in the interior.

The efforts to make the management of departmental governments more efficient will help boost their own resources, narrow any fiscal deficits, bolster their public-works investment capacity, and improve the quality of local urban services.

RISKS:

Experience under earlier programs suggests the importance of due attention to difficulties encountered in implementation, particularly as regards procedures pertaining to tendering and construction in departmental government projects. A number of measures have been adopted to minimize the risk of problems: (a) standard bid documents will be used in the procurement of goods and services under the program; (b) the executing unit will be responsible for providing technical assistance in the preparation of all bid documentation (primarily for international tendering); (c) all contract awards exceeding prescribed discretionary limits will require the Bank's approval; and (d) technical supervision for a project must be commissioned before the contract for the project is awarded.

Whenever funds are expended for institutional strengthening, there is always a risk that the outcomes could be compromised by changes in management, weak technical capacity, or replacements of local officials or scant interest on their part. To counter these risks, provision has been made for contracting integrated administrative and financial systems, including their implementation, start-up and requisite staff training. It is expected that, once the new administrative, financial and tax systems have been set in place as part of the institutional operating structure, it will be easier to ensure their continued use. The same holds true with respect to decision-making practices through planning processes and technical appraisal of projects, both of which have begun with the program and are now widely used locally.

SOCIAL CLASSIFICATION AND POVERTY-TARGETING:

Pursuant to the Eighth Replenishment document (AB-1704, paragraph 2.13), it has been determined that the proposed program qualifies as an operation seeking social equity and poverty reduction, inasmuch as the planned investments in basic sanitation and barrio improvement will benefit the population with unmet basic needs and thereby help to reduce the UBN index by 20%. Since the urban infrastructure projects will benefit all municipal residents,

irrespective of their income levels, the program cannot be classified as poverty-targeted in the terms of paragraph 2.15 of the Eighth Replenishment document.

EXCEPTIONS TO BANK POLICY:

a. Given the number, geographic diffusion and small size of the projects involved, it is proposed that all small-scale procurements be supervised by the Bank ex post. Supervision in this fashion would be applicable to construction projects for amounts equivalent to US$500,000 or less and to procurement of goods for US$50,000 or less (paragraph 3.20).

b. In view of the prompt and effective support provided by the United Nations Development Programme (UNDP) in the selection and hiring of consulting services for the earlier programs, which expedited processing arrangements, it is recommended that, as an exception, the executing agency be authorized to renew the present contract with UNDP. The services would include recruitment of consultants for implementation and technical oversight of the program, at a total cost of US$3.3 million. UNDP would charge 3.5% of that sum as its administration fee, which would be financed with local counterpart funds.

THE BANK'S COUNTRY AND SECTOR STRATEGY:

The Bank's strategy in Uruguay has three primary objectives: (i) to support a deepening of structural-reform efforts in the public sector, notably the reform of social security and the workings of government (to rationalize public spending and achieve fiscal balance); (ii) to support initiatives aimed at creating a better climate for the growth of private investment and recovery of competitiveness, including funding for basic infrastructure; and (iii) to support efforts to increase the supply and improve the quality of social services (in particular, education, health and sanitation).

In regard to the first objective, the proposed program would complement efforts under other Bank programs by supporting measures for the rationalization of public spending and balancing of departmental government budgets. In pursuit of the second objective, the program emphasizes exploration of the economic potential of departments and the creation of an enabling environment for private business to prosper, by endowing towns and cities in the interior with basic infrastructure. The investments to be funded by the program in the city services and sanitation infrastructure sectors, with the quality

improvements being sought by instituting procedures for the technical and economic appraisal of projects, would contribute toward the third objective.

SPECIAL CONTRACTUAL CONDITIONS:

The first disbursement is contingent upon prior performance, to the Bank's satisfaction, of the following obligations by the borrower: (a) that the executing agency be operating with the agreed-on staff and characteristics; (b) that the Bank has received the model participation agreement for departmental governments and the OPP; and (c) that the program's Operating Regulations agreed upon in advance with the Bank have been put into effect (paragraph 3.2).

Other special conditions have to do with (a) performance of a midterm review to examine the progress of the program and take corrective action where needed (paragraph 3.23); (b) adequate maintenance of the works and services financed by the program (paragraph 4.10); and (c) hiring of consultants for external monitoring of the program (paragraph 3.21).

PROCUREMENT OF GOODS, WORKS, AND SERVICES:

Thresholds above which international competitive bidding will be required are US$250,000 for goods and contracting of associated services, and US$2,000,000 for construction work. Procurements for lesser amounts will be tendered in accordance with Uruguayan law, adhering to procedures that are consonant with the Bank's procurement policies (paragraph 3.18).

I. FRAME OF REFERENCE

A. Macroeconomic and fiscal performance of Uruguay

1.1 The Uruguayan economy has been performing well since 1985 when a stabilization and adjustment process was set in motion, with a package of measures aimed at reducing inflation and controlling the deficit in the public sector. In real terms, Uruguayan GDP grew at an average yearly rate of 2.6% between 1986 and 1995, with growth every year except 1989 and 1995. From 1990 to 1995 annual inflation dropped from 112.5% to 42.2%. The public-sector deficit, which stood at 4% of GDP in 1990, declined to 1.7% in 1995.

1.2 With a per capita GNP of US$4,660 in 1994, Uruguay is considered a medium-high income country. 1/ Even if a major part of the country's population of 3.2 million were to achieve a high quality of life in regional terms, prospects for maintaining and improving that level will depend on the country's overcoming a series of obstacles. Recent studies 2/ reveal that the most serious problems, particularly from the standpoint of development of the country's interior, are (i) persistently high inflation (on the order of 30%); (ii) a still-sizable public sector which requires too much in the way of resources and runs a significant fiscal deficit, which is largely attributable to the social security system; (iii) a tax burden which is among the heaviest in the region (e.g. a 23% value-added tax), which acts as a disincentive to private economic ventures and reduces their competitiveness; and (iv) inadequate infrastructure for economic activity in the interior.

1.3 The government's macroeconomic strategy calls for the creation of better conditions to enable the Uruguayan economy to consolidate the adjustment and stabilization process and achieve more dynamic and sustained growth. It also calls for a reduction of fiscal spending and greater efficiency in the centralized and decentralized entities of the public sector. An important element of this strategy is redefining the role of the State, paring direct public-sector involvement in the economy and according priority to investment in economic and social infrastructure, with a larger share going to private firms. In the infrastructure sector, for example, the government adopted a system of highway-construction concessions aimed at doubling the capacity of a portion of the existing road network. It has also proposed or is studying the possibility of opening up a number of new areas of the economy (e.g. electricity, water systems and others) to private enterprise.

1/ World Bank. *World Development Report*, 1996.

2/ IDB: Uruguay country paper (preliminary version, December 1996). World Bank: Uruguay: Country Economic Memorandum (January 22, 1996).

In addition, reforms are under way in the central government, with the Bank's support, with the aim of reducing personnel costs and increasing the efficiency of State-run enterprises.

1.4 The strategy with respect to the departmental governments, which in general have exerted no pressure on the public deficit, involves increasing their administrative efficiency and boosting own resources in each department, so that it can fund a larger share of local investments and assume supplemental responsibilities in the social areas. Given also the overall macroeconomic conditions in terms of growth in output, falling inflation and continued control of the public deficit, conditions for implementation of the program proposed herein are expected to be satisfactory.

B. Departments in the interior

1. Description and general indicators

1.5 Uruguay is divided into 19 departments. All except the capital, Montevideo, are termed "departments in the interior", which are home to 50.8% of the country's population. Notwithstanding the historic importance of Montevideo in the national context, the economies of these departments in the interior accounted for 39.4% of Uruguay's GDP in 1995.

1.6 In accordance with Uruguay's unitary political system, the government of each department is headed by a governor (*intendente*) and a departmental council. The governor, who is elected by direct vote for a five-year term, is responsible for the executive and administrative functions of the departmental government (DG). The departmental council, also elected, has 31 members (*ediles*), and has legislative and local oversight functions.

1.7 The DGs are responsible for city maintenance, city streets and local roads, trash collection, markets, cemeteries, and slaughterhouses, in addition to exercising regulatory functions in the area of public health. They have no direct involvement in sanitation (water supply and sewerage), education or health, but they do work with central government entities in planning and maintenance for those sectors. Thus, the DGs have an important role in city and regional infrastructure management, one that gives them input into the creation of favorable conditions for the siting of economic activities in their areas of jurisdiction.

1.8 The DGs in the interior are sparsely populated (9.3 inhabitants per square kilometer); only four have more than 100,000 inhabitants. Though all 18 interior departments have more than one urban center, the bulk of the population of each resides in its capital.

Table I-1 - Departments in the Interior: Selected Indicators (averages, 1989 to 1994)					
Department	Population (number)	GDP per capita (1995) (US$)	Population with unmet basic needs (%)	Public servants/ 1000 popul.(1) (number)	Dep. revenues per capita (2) (US$)
Artigas	68,994	3,688	41.4%	24.4	198.4
Canelones	359,913	3,424	31.6%	10.1	108.0
Cerro Largo	77,985	3,940	42.4%	18.4	154.4
Colonia	112,348	5,120	24.8%	12.5	167.7
Durazno	53,864	4,306	35.3%	23.6	230.8
Flores	24,381	4,593	27.4%	20.5	257.3
Florida	65,873	4,849	29.7%	19.8	180.1
Lavalleja	61,241	4,033	29.9%	18.0	195.5
Maldonado	92,618	5,619	27.0%	26.8	750.5
Paysandú	103,487	4,891	32.9%	12.1	188.6
Río Negro	48,590	4,572	32.4%	21.4	249.9
Rivera	88,801	3,038	45.3%	18.5	151.1
Rocha	66,440	4,447	34.4%	20.7	225.1
Salto	105,610	3,605	37.9%	14.0	213.1
San José	88,020	4,175	34.2%	9.0	139.9
Soriano	79,042	4,565	30.6%	18.9	245.7
Tacuarembó	82,809	4,283	40.3%	22.0	195.2
Treinta y Tres	46,599	4,473	36.0%	23.8	185.5
TOTAL/Average	**1,626,622**	**4,149**	**33.8%**	**15.8**	**205.7**

Notes: (1) Municipal public servants per 1,000 population.
(2) Total annual DG revenues divided by total population of department.

Sources: Population census; Report on municipal accounts; Central Bank of Uruguay.

1.9 The table shows a diversity in the size of departments but a certain homogeneity in their social indicators. In terms of population, the largest department, Canelones, which takes in portions of outlying metropolitan Montevideo, has practically three times as many residents as the second most populous department, Colonia. The population of the other departments ranges from 24,000 to 112,000. **Social conditions**, measured by the percentage of the population with unmet basic needs (UBNs), are better in some departments than in others, correlating inversely to per capita income. The department worst off in this respect is Rivera, in which 45% of households have one or more unmet basic needs, and per capita income stands at US$3,038. **Per capita GDP** shows even wider variations, being highest on the southern coast, which includes Colonia and Maldonado, and lowest in outermost districts of metropolitan Montevideo and northern Uruguay. The **tax effort**, measured in terms of municipal revenues per capita, also varies significantly. Maldonado's locally generated revenues are more than thrice those of the next-highest department, owing to its heavy receipts from the international beach resort of Punta del Este. Among the other DGs, there are considerable differences in per capita tax revenues, which indicates that there are opportunities for improving tax collection. The indicator of

public servants per 1,000 population ranges from 9 to 24, suggesting, among other things, a need to reduce that ratio in a considerable number of departmental governments.

2. Municipal finances

1.10 Revenues of the governments of interior departments rose sharply from 1989 to 1994. Indeed, their total revenues over that five-year interval grew by close to 32% in real terms, indicating an upward trend of their share in the delivery of public goods in the country.

Table I-2: Financial indicators, governments of interior departments (millions of 1995 U.S. dollars*)

	1989	1990	1991	1992	1993	1994	1989-94
REVENUES							
Total	272.0	285.9	347.5	378.0	363.7	359.1	2006.1
Locally raised	154.5	162.4	211.2	240.6	233.1	221.0	1222.7
National	117.5	123.5	136.3	137.4	130.6	138.1	783.4
EXPENDITURES							
Total	320.1	297.6	344.0	376.9	397.3	406.9	2142.7
Payroll	172.8	157.2	154.8	171.2	197.6	201.8	1055.4
Capital investment	28.1	23.6	44.6	53.6	52.8	41.7	244.4
Other	119.2	116.7	144.7	152.0	146.9	163.3	842.9
INDICATORS							
- Growth in total revenue	n.a.	5.1%	21.6%	8.8%	-3.8%	-1.3%	32.0%
- Own revenues (% of total)	56.8%	56.8%	60.8%	63.7%	64.1%	61.5%	61.0%
- Payroll expenditure (% of total)	54.0%	52.8%	45.0%	45.4%	49.7%	49.6%	49.3%
- Capital spending (% of total)	8.8%	7.9%	13.0%	14.2%	13.3%	10.3%	11.4%
- Deficit/surplus (% of revenue)	-17.7%	-4.1%	1.0%	0.3%	-9.2%	-13.3%	-6.8%

* In constant 1995 Uruguayan pesos converted at the average 1995 exchange rate of 6.35 pesos.

1.11 Departments obtain revenue from two principal sources: (a) 61.5% is raised locally, primarily through taxes (on vehicles and real estate) and rates collected in the department; and (b) 38.5% is from transfer payments, most of them earmarked, under agreements with the central government, externally funded investment programs, and others. As Table I-2 shows, municipal financial autonomy was strengthened during the period from 1989 to 1994, as the share of own resources in total revenues rose from 56.8% to 61.5%. During this period, revenues from national sources increased by only 17.7% while local revenues grew by 43.1% in real terms.

1.12 The expenditures of the 18 interior DGs, which came to US$407 million in 1994, accounted for roughly 15.1% of aggregate Uruguayan public spending. However, the US$41.7 million in public outlays by these DGs, taken together, accounted for about 6.8% of total public investment spending (by the central, departmental and

state governments) that year. 3/ It is important to note that DG investment outlays increased by 48.4% over the past six years; personnel costs rose as well, but their 15.8% increase was well below the rate of increase in investment spending.

1.13 One disquieting factor is the widening of the fiscal deficit in 1993 and 1994, after it had been wiped out in 1991 and 1992. Even though this trend is easing off, there is still concern over the maintenance of the DGs' financial balance, which the proposed program will be promoting. However, more recent data point to an improvement in their fiscal status over the past year and promising prospects for the coming years, once land registers now being developed with Bank support come into effect, and controls on the vehicle license tax are tightened with support to be provided under the program proposed herein.

C. Previous Bank projects

1.14 The Bank has funded two programs to support the country's interior departments. Municipal Works Program I (POM I) had a total cost of US$50 million, of which the Bank financed US$40 million through loans 471/OC-UR, 472/OC-UR, and 750/SF-UR, approved in April 1984. Execution of that program was under the responsibility of the Ministry of Transportation and Public Works (MTOP), the State Sanitation Authority (OSE) and the departmental governments (DGs). The program included approximately 238 local infrastructure and public utility projects benefiting 97 localities outside Montevideo. Though it did achieve physical targets, POM I met with significant setbacks owing to delays in project preparation and the tendering process. As a result of changes in macroeconomic conditions and in national and local administrations, the physical targets were modified and a total of 193 works projects (70 for roads, 65 for sanitation and 45 for social services, plus five markets) were completed.

1.15 The principal lessons learned from POM I that were relevant to the design of the new program have to do with: (a) technical failings in the areas of project preparation and construction supervision and management, which can be remedied by segregating the functions of those who prepare or contract for preparation of projects (DGs) from those of the agency that evaluates them (the Planning and Budget Office – OPP) and strengthening the technical capabilities

---

3/ Values based on the National Accounts of the Central Bank and on the departments' yearly statements of account. Consolidated expenditure for 1994 was calculated at constant 1995 prices and converted at the rate of exchange of 6.35 Uruguayan pesos to one U.S. dollar. Total public-sector expenditure (central and departmental governments and State enterprises) is the sum of figures for (i) government consumption and (ii) public investment, both converted at the average 1994 exchange rate.

of executing agencies; and (b) problems such as those encountered in sanitary-sewer projects, where 30% of households were not connected, and with a farmers' market (Maldonado) which never operated because of problems with its management system. These problems can be resolved by means of additional financing for house connections and better institutional evaluation of projects.

1.16 The second Municipal Development Program (PDM II), with a total cost of US$35 million, was financed by loan 609/OC-UR for US$28 million approved in December 1990, and is being executed by MTOP, OSE, the Ministry of Economic Affairs and Finance, and OPP. The emphasis at this second stage was on strengthening the financial management of the DGs, mainly by bringing property records up to date. The works component of PDM II included city paving, water supply and sanitation and storm-drain projects, and construction of bus terminals, community centers and student housing facilities.

1.17 The institution-strengthening component of PDM II met with some delays owing to changes in its organization and reporting relationship (from MTOP it was transferred to OPP). Contracting for the property-records component was thrown off schedule when problems arose with the selection of consulting firms. These problems have now been resolved, and five of the six property-records projects are under way. Based on the schedules proposed by the firms, the work now under contract will be completed toward the end of 1997.

1.18 The evaluation of PDM II concluded that the physical targets had been attained and that most of the departments had achieved real increases in local-tax yields as a result of the technical assistance provided to them. Nevertheless, the delays in the property-records component have compromised the attainment of the institutional objectives proposed in the program.

1.19 The principal conclusions concerning the earlier programs is that accomplishment of their development objectives has been impaired by the absence of a clear idea as to the role of the DGs in the nation's public-sector stewardship and as providers of local services. More emphasis has been placed on the completion of works projects than on institutional strengthening, which is the key to sustained changes in local administration. The program proposed herein seeks to compensate for several of these shortcomings by instituting a system of management performance incentives (see paragraph 2.10) and by requiring an institutional-improvement plan for each DG before funding would be made available for its works projects, as well as bringing in a new technical-assistance strategy built around contracted integrated systems and their implementation.

D. IDB country strategy

1.20 The Bank's programming in Uruguay has three primary objectives: (i) to support deeper structural reforms in the public sector, notably the reform of social security and the workings of government (to rationalize public spending and achieve fiscal balance); (ii) to support initiatives to create an enabling environment for private investment and regain competitiveness, including funding for basic infrastructure; and (iii) to support efforts to increase coverage and improve the quality of social services (in particular, education, health and sanitation infrastructure).

1.21 In regard to the first objective, the proposed program would complement efforts under other Bank programs by supporting measures to rationalize public spending and achieve fiscal balance in the departmental governments. As for the second objective, the program emphasizes exploration of departments' economic potential and the creation of an enabling environment for private enterprise, by supplying basic infrastructure in towns and cities in the interior. Investments to be funded by the program in the city services and sanitation infrastructure sectors, with the quality improvements to be sought by instituting procedures for the technical and economic appraisal of projects, would pursue the third objective.

1.22 The program will complement other Bank operations in Uruguay, among them the metropolitan Montevideo sanitation program (UR-0089); the dairy region infrastructure program (UR-0062), which seeks to strengthen the economic base of the interior by upgrading its road and power infrastructure; and the water supply and sanitation program (UR-0092), which will add to the sanitation infrastructure in interior towns.

E. Strategy of the program

1.23 The proposed program represents a change in approach and targets relative to those of the earlier stages. It has a twofold purpose: to fund investments in infrastructure, which will help bring down the index of unmet basic needs (UBNs) in departments in the interior, and to support projects of strategic importance to the departments' economic advancement.

1.24 The program would bolster the DGs' capacity to invest directly in infrastructure and city services as a means of improving the quality of life of towns and cities in the interior and making them more attractive to productive enterprises seeking to set up business. Efficient service delivery and improvements in the management capability of DGs will be promoted through a system of incentives to reward sound management practices, including financial adjustments, heavier investment spending, and personnel cutbacks.

1.25 The DGs are assuming a progressively more prominent role in the delivery of public goods and in the management of fiscal resources in the country. A central element in the design of the present program was a concern as to sound performance of these functions and appropriate resource management. A draft constitutional amendment proposing that the DGs receive a larger share of national tax revenues is currently being debated in the Parliament, as part of a larger package of fiscal decentralization measures under consideration.

1.26 The DGs are expected to become protagonists in the local development process. With this in view, the program stresses the role of strategic planning as a tool for identifying economic potentialities, arranging priorities, coordinating investments with the central government, and promoting private investment. As a department draws up a strategic plan, it seeks community input as to departmental priorities and needs, particularly from the producer sectors. This tool, which is being adopted in major Latin American cities, helps build consensuses as to shared priorities and gives communities a greater say in local government decisions.

Departmental Strategic Plans

The strategic planning exercise, which has already been undertaken by 12 Dgs, has been, for many of them, the first-ever articulation of a medium-term vision of economic prospects and actions and investment priorities for the department. The following are examples of such plans and of the projects to be financed under PDM III:

*- The municipal government of **Maldonado** has identified tourism as its principal economic forte. As a priority activity to be financed under PDM III, it has selected a major sanitation project in one of the city's poorest neighborhoods. This intervention directly supports the tourism objective of the departmental strategic plan, which would be compromised if a large area of the city continued to lack adequate sanitation facilities.*

*- Where strategic plans points to an economic potential in the rural sector, projects will seek to prevent negative impacts on the urban environment. To cite one example, the **Lavalleja** municipal government has recognized the potential of the forestry sector in the department and gives priority to PDM III projects ensuring accessibility of outlying areas of the city of Minas. In the absence of the proposed access and interconnection projects, these neighborhoods would be physically cut off from the city, given the projected increase in heavy-vehicle traffic.*

*- The municipal government of **Treinta y Tres**, whose departmental strategic plan suggests a strong rice-growing potential, is proposing to improve road access to the city through projects to be financed under PDM III. Given its location on the transport corridor to Brazil, it is expected to witness a strong increase in traffic of trucks hauling huge volumes of grains to MERCOSUR markets.*

*- The department of **Paysandú** has identified the agribusiness sector, stockraising and river transport as its potential development sources. Some of the needed investments are already being funded under the dairy region program and by the Ministry of Public Works. The municipality will finance two tourism development areas with funds of its own, and PDM III will finance the solid waste collection and disposal system and paving and drainage works in the capital city.*

1.27 With the expectation that local investment projects should not rely as heavily as they do today on external funding (the operation proposed here will be the last one financed by the Bank entailing direct transfers to municipalities), and as a way of enriching the debate on intergovernmental relations in Uruguay,

the program provides for a study on the institutional role of DGs and alternatives for funding local investments. The study will propose the functions that ought to be reserved to the central or local governments and those that should be shared, together with local financing strategies and policies consistent with such a separation of powers. Also proposed will be modes of financing to encourage saving and fiscal discipline and ensure more stable funding for local investments. The program will also support activities of common interest to the DGs, such as a shared database and other facilities, to foster intermunicipal cooperation and coordination of their related initiatives.

1.28 The situation visualized at the end of the program is that of a system of government with functions better distributed between the central and departmental levels. This outcome will depend on the credibility that the DGs are able to achieve as sound local government bodies and efficient stewards of the growing volume of resources under their management, which would enable them to take on greater responsibilities in the performance of social and urban and regional development functions.

II. THE PROGRAM, ITS COST AND FINANCING

A. Objectives

2.1 The general objective of Municipal Development Program III (PDM III) is to increase the efficiency of the departmental governments (DGs) and strengthen them as decentralized public governing institutions and promoters of local development.

2.2 Its specific objectives are to:

a. reinforce the technical, financial and construction and city service management capabilities of the DGs; and

b. attend to the most pressing needs for investment in works and municipal services in departments in the interior.

2.3 In addition, through planned incentive systems, the proposed implementation methods, and the projects it is to finance, PDM-III will seek to: (i) foster economic development in the interior by upgrading infrastructure in towns and cities and thereby making them more attractive as prospective sites for productive activities; (ii) strengthen the DGs' planning and development-promotion capabilities; and (iii) help bring down DGs' personnel costs, boost their investment spending, and increase DG-administered monies.

Main benchmarks for the program (1997-2000)

Indicator	
- Increase in DG efficiency:	
Reduction in personnel costs (as% of total)	*10%*
Real increase in own resources	*10%*
Increase in investment spending	*10%*
- Reduction in share of population with UBN in the interior	*20%*
Physical targets	***No. of projects***
Barrio improvement	*28*
Sanitation	*3*
Urban streets and roads	*11*
Drainage	*10*
Solid waste management	*5*
Economic development	*10*

2.4 The Logical Framework and benchmarks of the program are provided in Annex II-1. The procedures and general rules for execution of the program are set forth in the Operating Regulations.

B. Description and components of the program

2.5 Municipal Development Program III has a total estimated cost of US$70 million and consists of two components: (a) an **institution-strengthening** component (US$6.5 million), which will finance administrative and financial management systems in the DGs, staff

training, and intermunicipal cooperation projects; and (b) an **investment** component (US$60 million) to fund urban development projects in all 18 departments in the interior.

2.6 As a condition for receiving funding for construction work, a DG would be required to submit a strategic development plan, prioritizing its investments, along with planned institution-strengthening projects to achieve the performance benchmarks set for the program.

1. Institution-strengthening

2.7 This component will develop the administrative and financial capabilities of DGs in the following areas:

a. Financial management and tax administration. Implementation of (i) integrated accounting, budget and expenditure-control systems; and (ii) tax administration systems.

b. Management advisory services and administrative systems. Advisory services to DGs in (i) internal organization; (ii) implementation of management information systems (capital spending monitoring, physical and financial control of works and city services; (iii) human resource administration systems; and (iv) advice on urban planning, promotion of economic activities, and privatization of municipal services.

c. Training of human resources. Training courses and workshops for municipal employees in areas of heavy demand, such as project planning, procurement and tendering, computers, and the environment.

d. Intermunicipal cooperation. Activities of common interest to DGs, including:

(i) implementation of shared databases (control of vehicle registrations; information on bid documents and procurement prices; urban planning and tax legislation, etc.); and

(ii) a study on the proper role of DGs in the delivery of local public services and alternatives for the financing of local investments. The study should provide input for formulating a national policy on administrative decentralization, proposing functions that ought to be reserved to municipal governments and those which should be shared by the central and local governments. One of the goals for the study should be to propose a mechanism to succeed the Municipal Development Program as an *ad hoc* source of investment

financing, replacing it with a more permanent and decentralized strategy.

2. Investment projects

2.8 Investment projects proposed by DGs on the basis of priorities specified in their local strategic development plans will be funded in the following sectors:

a. Barrio improvement. Projects affording comprehensive solutions to ensure a basic level of services to the residents of specific low-income districts or areas of influence. Includes sanitation networks (when their cost is less than 70% of the total cost of the project in question), storm drains, paving, construction of curbs and gutters, and installation of street lighting.

b. City streets and roads. Projects to organize and improve the urban street and road system and links to the interdepartmental highway system in urban areas. Includes construction, rehabilitation, widening, paving and associated structures, including bridges and their approaches.

c. Drainage systems. Projects to protect areas at severe risk of flooding or landslides. Includes construction of sewers and drains to control streams and carry off excess rainwater in urban areas and works to protect and stabilize hillsides.

d. Sanitation. Construction, extension and rehabilitation of sewer systems and house connections, including treatment facilities where needed to curb pollution of receiving bodies. Sanitation projects that would fall to OSE to operate will be confined to those already approved in the sample, until the Bank is satisfied that measures to rationalize the sector's regulatory framework, to which reference is made in previous Bank financing operations implemented by OSE, have been fully instituted.

e. City services and promotion of productive activities. (a) urban solid-waste management systems providing an integrated solution, encompassing every aspect of this utility service, from collection, storage and transportation to final disposal; (b) transportation terminals; and (c) projects to promote productive activities, including infrastructure for tourist centers, industrial parks, locales for productive activities, and others. These projects will require market studies, will be fully cost-recoverable, and will be operated by the private sector.

Table II-1: Eligible sectors	
SECTOR	**MAIN ACTIVITIES**
Urban improvements	Drainage, curbs, gutters, sanitation, paving, street lighting
Urban streets and roads	Bridges, curbs, gutters, paving
Drainage	Pipes, ditches, regulating or protective structures
Sanitation	Pipes, sewage treatment facilities
City services and development of productive activities	Solid waste management, transportation terminals, infrastructure for tourist centers, industrial parks, locales for productive activities

C. Strategic plans

2.9 As a means of guiding DG investment decisions toward consistent development objectives, the program requires each department in the interior to put forward a strategic development plan. Each DG develops its plan in consultation with representative sectors of the local community, with an emphasis on shaping a common point of view with respect to the economic fortes of the department and the dovetailing of public and private efforts. The plans cover at least the following areas:

a. the best prospects and focuses for local development, potential for attracting private funding, and main obstacles to consummating projects of interest to the region;

b. urban and social problems in the major cities of the department;

c. plans and programs that other public bodies propose to carry through in the department; and

d. administrative and financial condition of the DGs.

2.10 Based on diagnostic studies and on consultations with representative sectors of the local community, the department's socioeconomic development targets are identified, actions and strategies for attaining those targets are mapped out, and a set of investment projects in works, public services and institution-strengthening are identified for the DGs. Projects that meet the eligibility criteria for PDM III funding will be drawn from this group. A summary of plans already developed, following a set of guidelines for strategic-plan preparation drawn up by the project team, is provided in Annex II-3.

D. Allocation of resources

2.11 The process of allocating program funds among the municipalities was designed in such a way as to further the program's development

objectives in regard to management improvements in DGs. This allocation is based on the following criteria:

a. **Institution-strengthening component**. The funds for this component will be distributed evenly among all the DGs. Any funds not utilized or not allocated to approved projects by the time of a project's midterm review will be reallocated to other DGs on the basis of existing demand.

b. **Investment component**. To begin with, an amount equal to 70% of the direct costs of this component (US$45 million) will be distributed among the 18 eligible departments on the basis of an index reflecting population and department size (see Table II-2). This distribution will be applicable during the first two years of the program, after which any funds from this initial apportionment that have not been allocated to projects, plus the other 30% of the funding for direct costs in the investment component, will be redistributed among DGs that meet the following four requirements:

  (i) a **real increase in own resources** (10% above the 1994 baseline), in constant terms;

  (ii) a **reduction in staff numbers or personnel costs** (10% of the figure for the same base year, in constant terms), for municipalities with a ratio higher than 15 employees per 1,000 population; 4/

  (iii) a 10% increase in investment spending as a percentage of total expenditure; and

  (iv) implementation of cost control systems (for municipal works and services).

2.12 The funds will be distributed among the municipalities that have met these four requirements in the same relative shares as in the initial distribution.

4/ Departmental governments having lower ratios may not have increased the ratio, between 1994 and 1997, by more than 2 employees per 1,000 population.

Table II-2: Initial distribution of PDM III funds (US$)			
	Department	**Share**	**Allotment**
1	Artigas	5.32	2,234,400
2	Canelones	10.49	4,405,800
3	Cerro Largo	6.48	2,721,600
4	Colonia	5.51	2,314,200
5	Durazno	5.36	2,251,200
6	Flores	2.34	982,800
7	Florida	5.23	2,196,600
8	Lavalleja	5.23	2,196,600
9	Maldonado	3.56	1,495,200
10	Paysandu	7.13	3,994,600
11	Río Negro	4.41	1,850,200
12	Rivera	5.35	2,247,000
13	Rocha	5.10	2,142,000
14	Salto	7.38	3,099,600
15	San José	4.19	1,759,800
16	Soriaño	5.33	2,238,600
17	Tacuarembo	7.29	3,061,800
18	Treinta y Tres	4.30	1,806,000
	Total	**100.00**	**42,000,00**

E. Eligibility criteria

2.13 The eligibility criteria for projects financed under the program are outlined in Table II-3.

Table II-3: Eligibility criteria

	TECHNICAL	ECONOMIC	ENVIRONMENTAL
ectors)	- Must have priority status in the departmental strategic plan - Must give continuity to service in surrounding areas - Departmental ownership of land and easements - Surveys and soil studies must be available - Study of alternatives and selection of least-cost option - Scale must be in keeping with effective demand - Observance of construction-cost ceilings (see Operating Regulations) - Demonstrated technical and financial capacity for operation and maintenance of works and equipment	Economic internal rate of return of 12% or higher	- Must not jeopardize natural reserves or historical or heritage sites - Avoid locating in areas prone to environmental haz pollution, instability, contaminating winds - Project must comply with national and local enviror regulations and have required permits - Compliance with urban development plans and ma use plans of the DG where the project is located - Submission of completed environmental brief
	- Comprehensive solution ensuring basic level of services (water, sanitation, sewers, streets and roads, public lighting) - **Sanitation** (sanitary sewerage): satisfy criteria established for the sanitation sector - **Paving**: (i) useful life of at least five years, (ii) only when there is water, sanitation and drainage service - **Curbs and gutters**: include paving and storm drains	Estimated benefits in form of property appreciation EIRR 12%	- Neighborhood should have basic waste collection a sanitation services or plan to address these probler - Drainage projects: demonstrate that overflow at ou cause problems
TS	- Project must give continuity to the urban street and road system - **Paving**: (i) useful life of at least 10 years; (ii) only when there is water, sanitation and drainage service; (iii) comprehensive solution (wearing course, gutters, drains and public lighting)	Benefits in form of savings in vehicle operating costs	- Include storm drainage - Consistency with Regional Development Plan - Mitigate impact on residents - Bridges with adequate, safe approaches for vehicle pedestrians
)	- Complete separation from storm drainage system - Provide for final disposal with at least one primary treatment - Comply with technical standards and submit agreement for transfer of works to OSE - Water service must be available - Provide for house connections and inside plumbing	Benefits in form of property appreciation (when in barrio improvement programs) EIRR 12%	- Site the treatment plant in an area that will not both or mitigate negative impacts - Adequate absorption capacity of receiving body - Streamlined environmental assessment for towns w 10,000 population; for larger centers, submit an EIA
	- Project area has adequate potable water and sanitation systems (collective or individual treatment system) or they will be built concurrently	Estimated benefits in form of property appreciation EIRR 12%	- Must not be combined with sewage pipes - An adequate urban solid waste collection system
; AND)F	- **Solid waste management**: (i) a solid waste management plan in place; (ii) comprehensive solution, from collection to final treatment - **Promotion of productive activities**: (i) market study showing commercial feasibility; (ii) recovery of investment costs; (iii) operation and maintenance by the private sector	Solid waste: Benefits from amounts paid Productive activities: Market analysis; benefit/cost analysis with EIRR of 12%	- Produce an Urban Solid Waste Master Plan - Prepare an environmental impact study for cities of population

F. Cost and financing of the program

2.14 The total cost of the program, calculated at July 1996 prices, is estimated at US$78 million. The following table gives a breakdown of total cost and sources of funding.

Table II-4: Total cost of the program and breakdown of financing (millions of US$)

COMPONENTS / COST ITEMS	IDB (OC)	LOCAL CONTR.	TOTAL	%
1. Administration and supervision	**2.1**	**1.6**	**3.7**	**4.8%**
1.1 Preinvestment studies	0.4		0.4	0.6%
1.2 Administration	1.7	0.4	2.1	2.7%
1.3 Supervision		1.2	1.2	1.5%
2. Direct costs	**45.5**	**21.0**	**66.5**	**85.2%**
2.1 Investment projects	42.0	18.0	60.0	76.9%
2.2 Institution-strengthening	3.5	3.0	6.5	8.3%
3. Financial costs	**7.0**	**0.8**	**7.8**	10.0%
3.1 Interest	6.35		6.4	8.2%
3.2 Credit fee		0.8	0.8	1.0%
3.3 Inspection and supervision	0.55		0.6	0.8%
TOTAL	**54.6**	**23.4**	**78.0**	**100.0%**
Percentage	**70%**	**30%**	**100%**	

2.15 The program will be financed in part by a loan in U.S. dollars from the Bank's ordinary capital.

III. PROGRAM IMPLEMENTATION

3.1 In contrast to the earlier stages, in which stand-alone projects were financed, PDM III will fund projects developed within the context of a comprehensive investment plan so as to maximize the impact on development in each department. Thus, the first step for projects to be financed is the preparation by each DG of a **strategic development plan** to serve as the frame of reference for its investments and institution-strengthening projects.

3.2 The first disbursement under the program is contingent on the OPP's having formally established the program's executing unit (Municipal Development Unit), with the staff and features agreed upon with the Bank; on the Bank's having received the model participation agreement to be signed by the DGs and the OPP; and on the Operating Regulations having been put into effect. The other official documents used in the program (standard bid documents, terms of reference for supervision, OPP-DG agreement for participation in the program) are to be submitted to the Bank for prior approval.

3.3 The condition precedent for a DG to receive program financing will be the signature of an **agreement to participate** in PDM III, using the standard form approved by the Bank. These agreements will set forth the commitments and obligations of each party, spell out obligations vis-à-vis the Bank, and set forth the general conditions governing the funding of projects and maintenance of works financed. Once the agreement has been signed, investment and institution-strengthening projects will proceed through the stages described below.

A. Institution-strengthening component

1. Project identification

3.4 Institution-strengthening projects will be financed at the express request of the DGs concerned. The Municipal Development Unit (UDM), acting in each case in concert with the DG and on the basis of a specific diagnosis, will decide on the features of the project, including particulars as to technical support, activities and implementation schedule. All projects must be included in the respective DG's strategic development plan and must answer needs set forth therein.

2. Supplemental diagnosis

3.5 Proposals for strengthening projects will be reviewed by the UDM team, which will produce a diagnostic report on each verifying the technical assistance priorities and supplying additional data for use in developing terms of reference for the technical assistance projects.

3. Preparation of institution-strengthening proposals

3.6 Based on the aforementioned analysis, the DGs, with technical support from the UDM, will develop the final institution-strengthening project proposals, setting out in each case the objectives, components, methodology to be used, implementation arrangements, consultant qualifications, estimated costs, and other pertinent items. The UDM must verify that projects adhere to the guidelines laid down for the program's institution-strengthening component, so as to ensure methodological consistency among the systems of the various departments.

4. Project execution

a. Hiring of consulting services

3.7 The final institution-strengthening project proposals will serve as the basis for drawing up bid documents for selecting and hiring the required consultants. In performing this task, the DGs may seek support from the UDM or other experts in specific areas. The contracting for such services will be a responsibility of the DGs, which will call for offers with UDM technical support. The UDM itself could also call for bids, at the request of a DG or if a project encompasses more than one department.

b. Implementation monitoring and technical supervision

3.8 Responsibility for monitoring the execution of institution-strengthening projects will lie with the DG and the UDM. The UDM will prepare technical oversight reports on supervised projects and periodic reports on progress of this component.

5. Implementation and start-up of systems

3.9 Contracts for technical assistance services financed by the program are to spell out the responsibility of consultants for the implementation and start-up of systems, including staff training. The DGs, for their part, will be responsible for placing the necessary personnel, premises, and other counterpart requirements at the disposal of the consultants and for adopting such changes in organization and internal procedures as are required to effectively implement the new services or systems. The function of the UDM will be to check compliance with the commitments assumed by the parties and adopt or recommend remedial measures needed for the success of projects.

6. Intermunicipal cooperation projects

3.10 Contracts for technical assistance projects in the intermunicipal cooperation component will be arranged by the UDM/OPP upon request of the Congress of Governors. The computerized systems will be developed and operated by a consulting firm, which will be

responsible for installing and maintaining systems and applications which are used by all the DGs. The signing of an agreement between the OPP and the Governors serving on the Congress of Governors will be a condition precedent to the execution of this component. The study on the institutional role of DGs will be commissioned by the OPP from a team of consultants. The departmental governors, however, are to provide input into the methodological orientation of the study, and its findings are to be submitted directly to the Congress of Governors.

B. Investment projects

1. Project identification and selection

3.11 Projects will be identified and selected within the framework of the DGs' strategic development plans. These plans will set out development targets and projects that can help attain them, among which will be those that qualify for financing under the program (see paragraph 2.8). The plans will be developed by the DGs and submitted to the OPP's Municipal Development Unit (UDM) for analysis. The role of the UDM specialists will be to help develop and present the plans, making certain that the community has been consulted and that due account has been taken of its input, and checking the projects submitted for consistency with the department's development targets, among other technical and methodological considerations.

2. Technical analysis and declaration of project eligibility

3.12 Once their strategic plans have been approved, the DGs may put forward individual projects, observing the program's project preparation guidelines, for UDM review. Project proposals will undergo a technical analysis and will be checked for compliance with the technical, economic and environmental eligibility criteria. If they satisfy those criteria, the UDM, in consultation with the Bank where necessary, will declare them eligible for funding under the program and will authorize the respective DGs to implement them.

3. Execution of investment projects

a. Tendering

3.13 All projects forming part of the program will be tendered through local or international competitive bidding (see thresholds in paragraphs 3.18 and 3.19). Standard bid documents agreed upon and approved in advance by the Bank will be used in the bidding. For items costing less than specified thresholds, these standard documents will provide for streamlined procedures, likewise agreed upon with the Bank, to make it easier for small construction firms to bid.

3.14 **Execution of works by DGs.** In the case of fairly uncomplicated jobs, or when experience shows that the private sector has no interest in participating, the Bank may allow works projects to be done directly by DGs, using their own personnel and equipment. In such cases, the program will finance only the supplemental procurement and contracting needed to complete the projects, and those items will be charged against the local counterpart. Contributions by the DGs in the form of staff and equipment will be considered complementary financing and will not be eligible for funding under the program. The total amount of the program's contribution to such works may not exceed 10% of the total allocated initially to each DG in the investment component.

b. Technical supervision and works management

3.15 The DGs will be responsible for engineering management of construction work done under the program, and must have the services of qualified professionals for this purpose. They may elect to hire outside consultants for this work, in which event the consultants' services may be paid for with program funds. The UDM may also engage such services, at the request of a DG or when the services encompass more than one department.

3.16 The UDM will in turn supervise the technical, environmental, economic and financial side of projects which are executed by DGs, through hired consulting firms or experts acting under terms of reference agreed upon in advance with the Bank.

4. Operation and maintenance

3.17 When a contractor delivers works to a DG, the DG will be required to indicate its acceptance in a certificate drawn up for that purpose. The DG will also have to take the necessary provisions for start-up and future maintenance of the works. In the case of sanitation projects, the works are to be transferred to the State Sanitation Authority (OSE), which is to take delivery of them and certify its acceptance in accordance with the terms of the OSE/DG agreements, the submission of which is required before funds will be made available for a project. Such works will be transferred outright to OSE, given their social priority, as projects carried out in low-income areas.

C. Procurement and contracting

3.18 Contracts for the purchase of goods and for construction work will be awarded in accordance with the procedures stipulated in Annex B to the loan contract. The thresholds above which international competitive bidding will be required are US$250,000 for goods and associated service contracts and US$2,000,000 for construction work. Procurement for amounts below these limits will be subject

to bidding in accordance with Uruguayan law, following procedures agreed upon in advance with the Bank.

3.19 The threshold above which international calls for offers will be required for consulting contracts is US$200,000. The procedures adopted in every case must conform to the provisions set forth in Annex C to the loan contract. Every department eligible for the program will have a ceiling of US$300,000 for institution-strengthening projects. It is expected that a significant number of these will be tendered internationally. The following procurement table shows items to be tendered for the program.

Table III-1: Procurement plan

Projects by sector	Number of projects/ contracts	Average amount (US$000)	ICB	LCB
a) **CONSTRUCTION**				
Barrio improvement	28	660		x
Sanitation	3	2,800	x	
Roads	11	590		x
Drainage	10	1,600	x	x
City services	5	400		x
Promotion of productive activities	10	350		x
b) **GOODS AND EQUIPMENT**	10	100		x
c) **SERVICES**				
Consultants: Admin./Fin./Taxation	10	> 200	x	
	10	< 200		x
Individual consultants	30	35		x
Training	5	100	x	x

D. Discretionary limits

3.20 The following ceilings have been established for the UDM to approve projects directly: (a) US$50,000 for procurement of goods and associated service contracts; and (b) US$500,000 for construction contracts. To review such direct UDM approvals, the Bank will perform an ex post analysis of a sample representing approximately 10% of the projects in each sector. This percentage will be raised in the event that cases of rejection or disputes are encountered. The Bank reserves the right to request full information regarding procurement, tendering, and construction work, and to convey observations and concerns in that connection. If any irregularities are subsequently encountered, the Bank reserves the right not to fund the procurement in question.

E. External monitoring of the program

3.21 The UDM will hire a consulting firm to perform the external monitoring of the proposed program throughout the entire implementation period. That firm will: (a) collect data for

measuring progress on the program against the established development indicators and benchmarks; (b) compile information on outcomes of institution-strengthening projects funded by the program; (c) compile information on the effective institution of land registers financed under PDM-III; and (d) produce ex post economic evaluations to serve as inputs for devising new funding avenues for municipal projects. Reports produced from this monitoring work will be used in the midterm review of the program. The reports will be circulated to the pertinent entities and made available for the information of interested parties. The terms of reference for these consulting services have been approved by the Bank.

F. Monitoring reports / Performance indicators

3.22 To track the DG performance indicators referred to in paragraph 2.11(b), the OPP will prepare a report on baseline indicators for the years 1994 and 1995, to indicate targets to be achieved for the 18 DGs. The OPP will update these data at six-month intervals and review them with the Bank, to assess progress toward the benchmarks and the effectiveness of the governments' institution-strengthening actions.

3.23 Progress on the program will be monitored by means of progress reports to be produced by the UDM and submitted to the Bank within 60 days after the end of each calendar six-month period. Financial reports, audited by the Tribunal de Cuentas [Uruguayan Government Accounting Office], are to be submitted to the Bank as follows: (a) a yearly report, 120 days after the end of each fiscal year; and (b) final audited financial statements showing the use of the funds received, 120 days after the date of the last disbursement.

G. Supervision by the Bank / Midterm review

3.24 The program will be supervised by the Bank's Country Office in Uruguay. A midterm review will be conducted by the OPP and the Bank in about August 1998. Progress on the program, compliance with its objectives, and any problems encountered in executing its various components will be examined in the course of the review. The UDM will prepare a monitoring report and a complete progress report for the review. The DG performance indicators will be reviewed to ascertain which DGs have satisfied the institutional and financial performance criteria established for the second round of distribution of program funds (paragraph 2.11).

H. Disbursement programming and timetable

Table III-2: Annual disbursements (US$000)							
SOURCE	**1997**	**1998**	**1999**	**2000**	**2001**	**TOTAL**	**%**
IDB	14,000	14,000	13,400	10,000	3,600	49,000	70
Counterpart	5,000	6,000	4,500	4,000	2,900	21,000	30
Total	20,000	20,000	17,500	14,000	6,500	70,000	100
% of total	**25.6**	**28.6**	**22.4**	**18.0**	**8.4**	**100.0**	

I. Program readiness

3.25 At the date of submission of this proposal, 12 of the 18 departmental governments had produced strategic plans and a sample of projects totaling US$29 million and accounting for some 53% of the investment component had been prepared and analyzed by the Bank's analysis mission. The findings of the analysis are presented in chapter V.

3.26 In regard to the institution-strengthening projects, practically all the DGs that submitted strategic plans had indicated that they intended to seek assistance under the program in order to set up administrative and financial systems and institute other management improvements. Nevertheless, the sample includes only one project of this type: a standard project having to do with modernization of the financial and tax system of the department of Paysandú. This is due to the fact that the basic terms of reference for projects in this component, which are serving as a guide for project preparation by the other DGs, were only decided upon after the analysis mission.

IV. THE BORROWER AND THE EXECUTING AGENCIES

A. Overall organization of the program

4.1 The borrower will be the Eastern Republic of Uruguay. The program will be coordinated and the financing proceeds administered by the Planning and Budget Office (OPP), through the Municipal Development Unit (UDM), which was responsible for implementing part of PDM II and prepared the program described herein.

4.2 The OPP, through the UDM, will approve and supervise investment programs and will work with the departmental governments (DGs) on the technical side of implementing such projects. It will also directly supervise and carry out some of the projects in the institution-strengthening component. The DGs will act as coexecuting agencies, participating in that capacity in the implementation of program-funded projects or entering into contractual arrangements to that end.

B. The Program Coordination Unit

1. General functions

4.3 The UDM will be in charge of coordinating the program, which entails the following core functions: (i) help the DGs draw up strategic plans; (ii) review project proposals from a technical standpoint, check them for compliance with the project eligibility criteria, and approve them; (iii) approve bid documents, participate in some tendering processes, and call for bids directly, in cases provided for; (iv) oversee project execution; and (v) manage the program financially, assuming responsibility for disbursements and rendering of accounts to the Bank.

2. Organization

4.4 The UDM will have a general coordinator and two component coordinators, one each for the investment and the institution-strengthening areas. It will also have an administrative and financial support unit and advisory assistance for procurement and legal matters. To organize the work, the UDM will adopt a matrix structure in which the focus of work will be the projects each DG is implementing. Thus, the DGs will be grouped into regions and a manager will be appointed to oversee projects in each region. Whenever necessary, the regional managers will ask the component coordinators for assistance from experts in the respective areas of expertise, thereby providing technical support in the various specialties available in the UDM.

a. Coordination of investments

4.5 The UDM will have two units for implementing the investment component, with the following functions:

(i) The **investment project analysis** area will examine and assess investment project proposals submitted for program funding and recommend their approval, will advise the DGs on the preparation of such projects and of bid documents, and will help in the examination of bids.

(ii) The **construction supervision** area will monitor execution of investment projects and hire supervisory firms for technical monitoring and analyze and approve the reports of such firms.

b. Institution-strengthening

4.6 Technical advisory services for the institution-strengthening component will be commissioned from specialized firms. The duties of the staff of the UDM institution-strengthening unit include: (a) technical advisory support to DGs on the technical aspects of drafting terms of reference and of strengthening projects; (b) assistance in preparing invitations to bid and in examining bids, through to the contract award stage; (c) adivising on the hiring of consultants and firms specializing in such projects; (d) supervision of consulting services through the end of the implementation stage and preparation of evaluation reports; (e) coordination and contract arrangements for training courses financed by the program; and (f) monitoring of administrative and financial indicators of the DGs.

c. Support sectors

4.7 The UDM will have two support sectors:

(i) **Administration and financial control**, to perform financial management and accounting functions with respect to PDM III funds, serve as direct liaison with the Bank, and arrange payment against progress certificates and for goods and services contracted or paid for by the program. Support for these functions will be provided by a consulting firm hired in accordance with terms of reference agreed upon with the Bank, and by two local consultants.

(ii) **Legal and procurement advisory support**, to (a) prepare and draft documentation for calls for bids and for proposals; (b) sit on committees to advise on contract awards in calls for bids and proposals; (c) draft contracts to be executed with successful bidders; and (d) represent the UDM, with

power of attorney, and help it in its administrative dealings with public and private entities.

d. Personnel requirements

4.8 The Municipal Development Unit will be headed by a coordinator and will have 11 full-time local consultants — five for the investment sector, four for institution-strengthening and two for the finance and accounting areas. One of the consultants must be qualified to serve as the program's environmental specialist. The unit will also receive part-time support from an attorney and a procurement expert. Other consultants will be engaged for short-term assignments when special expertise is needed for some element of the work.

e. Support of a specialized agency

4.9 The OPP proposes to enter into an agreement with the United Nations Development Programme (UNDP) to have that agency manage all or some of the funds budgeted for consultants under the proposed program (PDM III). UNDP is already under contract to perform these functions for the PDM II executing unit, an arrangement which has considerably expedited the hiring of services for this program. Its services would include hiring consultants for implementation and technical supervision of the program, at a cost of US$3.3 million. UNDP would charge the equivalent of 3.5% of that sum as an administration fee, which would be charged to the local counterpart for the program.

C. Operating capacity of departmental governments

4.10 All construction contracting for the projects will be the responsibility of the DGs, which have overseen construction projects of equal complexity in the past. The quality of the works will be guaranteed by technically-sound designs, detailed and well-grounded cost analysis, and the formal maintenance commitment to be required under agreements of participation in the program. An analysis was conducted to determine the institutional capacity of the DGs to perform the requisite contracting, implementation and monitoring functions, and to operate and maintain projects upon their completion. The analysis of the operation showed that the DGs were equipped to perform these tasks.

4.11 The table below shows the funds available to each of the departments that have projects included in the program's sample. These resources attest to the departments' capacity to operate and maintain the works.

Table IV-1: RESOURCES OF PUBLIC WORKS BUREAUS				
DEPARTMENT	CURRENT EQUIPMENT STOCK (1) (number of machines)	PERSONNEL		BUDGET (US$000) 1995-1999 (3)
		PROFESSIONAL (2)	LABORERS	
Canelones	95	6	1,167	13,838
Cerro Largo	41	5	271	9,794
Durazno	27	7	122	2,294
Flores	16	3	84	4,228
Lavalleja	50	2	261	2,327
Maldonado	77	34	1,280	17,162
Paysandú	31	9	213	9,476
Rio Negro	30	7	292	4,175
Salto	43	9	272	15,358
San José	35	4	150	2,877
Tacuarembó	27	4	315	5,917
Treinta y Tres	26	3	85	5,513

NOTES:
1. Major equipment items in good operating condition (number of motor graders, bulldozers, loaders, backhoes, and paving rollers).
2. Professionals assigned to provide support to Bureaus of Public Works.
3. Funds in DG budgets allocated for materials and supplies and for machinery, equipment and furniture and fixtures of the Bureaus of Works and Maintenance from 1995 to 1999 (in thousands of current 1995 U.S. dollars).

4.12 As the foregoing table shows, the DGs have sufficient roadbuilding equipment and workers to maintain the program works. The budget allocations for such maintenance are also adequate, being in every case at least 5% of projected yearly allocations for program-funded investments in each department. Furthermore, according to the institutional analysis, they are technically equipped to maintain the program-funded services and infrastructure, and are committed to doing so.

V. PROGRAM FEASIBILITY

A. Stages of the appraisal

5.1 The procedure that was followed in analyzing the sample, which will be used throughout the program as well, consists in verifying the feasibility of a proposed project from the following standpoints: (a) **strategic**, to see whether the project will help achieve the targets in the respective department's strategic plan; (b) **technical**, to ascertain compliance with technical eligibility criteria for the sector in question and with cost ceilings established; (c) **economic**, to ensure that the project would yield an internal economic rate of return of at least 12%, as determined by a benefit-cost analysis; (d) **environmental**, to ensure that it will satisfy environmental requirements; and (e) **institutional**, to assess the capability of the entities that are to implement and operate projects. During the analysis of the program, each of the 30 projects in the sample was subjected to this sequence of appraisals and, as indicated in the following analysis, was found to be feasible.

B. Strategic assessment

5.2 In preparing the program, it was emphasized that project proposals put forward by departmental governments DGs must dovetail with their strategic development plans. The strategic plans themselves were analyzed to determine whether they adhered to the established guidelines, i.e., identification of the department's economic potential, main lines of action for attaining strategic targets, and identification of projects for which program funding would be sought. Thus, the strategic evaluation stage may be summed up as confirmation by the project team of the methodological consistency of the strategic development plans and that the proposed projects would help realize the plans' objectives.

5.3 During the preparation of the program, 12 departments produced strategic plans (summarized in Annex II-3). These plans revealed a wide range of economic fortes and prospects in different departments and a range of opportunities available to DGs to foster local economic growth. In nearly every instance, this was the first time the governments had articulated a medium-range vision of economic development for their departments. A further innovation was the emphasis laid on the role of DGs as promoters of private investment in their jurisdiction. Indeed, almost half the DGs identified private-sector-driven development as their principal strategy avenue.

C. Technical analysis

1. Project development and appraisal capacity

5.4 The experience acquired during Municipal Development Programs I and II provided an opportunity to train technical personnel of DG Bureaus of Public Works in developing the types of projects most frequently undertaken, e.g. barrio improvement, storm drainage, channeling and paving projects. Sanitation projects are submitted to OSE for review and approval. For large or complex projects, the DGs, with UDM assistance, hire consultants who are specialists in the sector involved. This practice provides the DGs and OSE with adequate capacity for the preparation of projects for the program proposed herein.

5.5 The DGs have experience and, for the most part, the necessary technical capacity to contract out, supervise and monitor works projects. For highly technical, complex projects or where there are constraints in terms of DG staff time, consultants will have to be hired to supervise and inspect the work.

5.6 The methodology for the technical appraisal of projects in the program was developed and applied in the course of the orientation and analysis missions, working with OPP/UDM technical officers. The executing unit has therefore demonstrated during the preparation of the program that it has qualified technical personnel with the necessary experience and tools (project preparation guidelines and project appraisal manual) for a sound assessment of projects seeking program funding.

2. Construction contracting, execution, operation and maintenance

5.7 Both OSE and the DGs are experienced and, for the most part, have the technical capacity to contract out, supervise and monitor this type of works. In cases involving special technical complexity or constraints in terms of DG staff time, consultants will be hired to supervise the work.

5.8 Operation and maintenance of the bulk of the works to be financed by the program will fall to the DGs which, as indicated in chapter IV, have the necessary experience, staff, equipment and budgets for this purpose. Responsibility for sanitation works will be borne by OSE, which has the required capacity and resources.

3. Technical analysis of the sample

5.9 The technical feasibility of the program was determined by analyzing a sample of 30 projects in 12 of the country's 18 interior departments. Projects in the sample will cost a total of US$29 million, roughly 53% of the program's investment component. Of the total, 34% is for urban improvement projects, 15% for sanitation projects, 11% for urban streets and roads, 34% for

drainage, and 6% for city services and promotion of productive activities.

5.10 Most of the projects were developed by technical staff of DG Public Works Bureaus, with assistance from external consultants for very complex projects. In producing the designs, the standards of Uruguayan regulatory agencies for the respective sectors were adhered to or, in their absence, internationally accepted standards. Where applicable, a number of technically acceptable options were considered and the least-cost option was chosen. The projects were developed and designed to the working level, including drawings, specifications and implementation schedules.

5.11 An itemized construction budget for civil works was calculated for each project, taking into account the most recent experiences and present prices of materials, equipment and labor, to come up with as exact an estimate as possible. This made it possible to establish ceiling unit costs acceptable for some sectors within the project eligibility criteria. The highest average per-beneficiary costs are those for the urban improvement and drainage sectors, at US$638 and US$647, respectively.

Table V-1: Projects in the sample, by sector, and per-beneficiary investment

SECTOR	NUMBER OF PROJECTS	INVESTMENT		NO. BENEFICIARIES	INVEST/ BENEF (US$)
		AMOUNT (US$)	%		
Urban improvements	15	9,904,510	34	15,519	638
Sanitation	1	4,467,000	15	13,908	321
Urban streets and roads	5	3,148,308	11	27,862	113
Drainage	6	9,906,577	34	15,315	647
City services and promotion of productive activities	3	1,649,643	6	111,404	15
TOTAL	**30**	**29,076,039**	**100**	**184,008**	**158**

5.12 Given the sound technical preparation of the projects, the analysis of their costs, and the institutional capacity for contracting, implementing and monitoring them and for operating and maintaining works upon their completion (see paragraph 4.11), as well as the provision in the Operating Regulations for adjustments in progress, it can be concluded that the program is technically feasible.

D. Economic feasibility

1. Analysis methodology

5.13 In order to ensure good quality and a positive return on investment projects funded by the program, all the projects have been submitted and continue to be subject to an economic appraisal for the purpose of estimating their economic internal rate of return (EIRR). In this analysis, projects are looked at from a social standpoint, applying an economic cost-benefit analysis based on the following methodological approach.

5.14 **Costs**: The estimate of economic costs is based on the table of costs submitted along with the project design, excluding taxes. It was decided to use the costs listed in the tables and not apply any factor to estimate efficiency or shadow prices, since it was felt that prevailing prices in Uruguay are increasingly in line with those of an efficient market, given the steady opening of the country's economy.

5.15 **Benefits**: Benefits were estimated indirectly, inasmuch as there is no market that determines prices of improvements in urban conditions and other benefits deriving from projects in the program. Three types of benefit indicators thus are used: (i) property appreciation, for barrio improvement projects, including those with sanitation and storm drainage components; (ii) savings in vehicle operating costs for city street and road projects; and (iii) payments actually made by beneficiaries in the case of city utilities. Where benefits cannot be measured even indirectly, as in certain environmental projects, a cost-efficiency criterion is applied and the least-cost solution is sought.

5.16 Inasmuch as many project appraisals use property appreciation to justify the proposed investment, special attention was given to the collection of reliable data on this market in Uruguay. The data used refer to property values in neighborhoods with and without urban improvements, obtained from local real estate firms. Appreciation estimates were conservative in every appraisal performed. In Uruguay, generally speaking, property appreciation after city services are introduced is modest but sufficient to warrant the proposed investments.

2. Economic analysis of the sample

5.17 The economic appraisal of the sample of 30 projects with a total cost of about US$29 million was reviewed during the analysis mission. The sample yielded an economic internal rate of return (EIRR) of approximately 18%; the program thus is economically justified. The findings of the economic analysis are summarized in the following table.

Table V-2: Sample: Economic internal rates of return (EIRRs) by sector	
SECTOR	EIRR
Urban improvement	19.0%
Sanitation	16.3%
Urban streets and roads	19.2%
Drainage	17.0%
City services and promotion of productive activities	19.7%
TOTAL	18.0%

E. Environmental feasibility

5.18 Pursuant to the recommendations of the Bank's Environment Committee, the UDM prepared an environmental analysis of the program, which was submitted to and approved by that Committee. PDM III will help improve the quality of life of residents in the country's interior through the projects it finances. In addition, as an eligibility requirement relating to the preparation of strategic plans, this will help instill the concepts of sustainable development and land-use planning. Some of the most salient positive impacts that can be expected to ensue from program investments are: (1) the solution of critical problems in the areas of drainage, flood control, sanitation and urban roads, which are impairing the quality of life of the population; and (2) expansion of street cleaning and waste collection and disposal services and a slowing of the proliferation of trash dumps and burning of wastes. These actions will create conditions that should help reduce the incidence of waterborne diseases and preserve natural resources.

5.19 The projects will have localized, temporary negative impacts of low to moderate magnitude, all of which can be mitigated by simple, easily implemented measures. The sample of projects indicated that impacts would be mainly confined to the construction phase. The environmental methodology and criteria for PDM III were based in part on the work in PDM II, thereby affording continuity to these tasks, but greater emphasis was placed on a number of important areas such as (i) preparation, for each proposed project, of an environmental brief providing information on the project for use by the OPP in identifying necessary environmental protection measures, in accordance with the program's environmental eligibility criteria; (ii) strengthening the OPP's technical-environmental capacity by hiring an environmental specialist for the program and

conducting a course in environmental management for technical staff of each DG; and (iii) incorporation of the environmental requirements in the bid documents for construction to be funded under the program.

F. Institutional feasibility

5.20 The construction capacity of the DGs has been demonstrated in the earlier projects, in which investments were made in sectors that were similar to or as complex as those to be financed by the present program. Standard bid documents will be adopted to expedite the awarding of construction contracts by DGs, and technical support will be available in each case from staff of the executing unit (UDM) and from a supervisory firm hired to monitor construction work. The UDM will have 11 full-time professionals with special expertise in engineering, architecture, economics and the environment, all with more than three years' experience in supervision and evaluation of construction and design, architectural drawings, bid documents and processes, bid examination, supervision, and environmental specialties. Experts in areas other than those of UDM professionals will be hired when necessary. The institution-strengthening component will be carried out by consultants or consulting firms hired specifically to develop and implement the systems in question, which increases the likelihood of successful start-up and operation of same.

G. Social classification

5.21 Pursuant to the Eighth Replenishment document (AB-1704, paragraph 2.13), the proposed program has been determined to be one seeking social equity and poverty reduction, inasmuch as the investments in basic sanitation and barrio improvement will benefit households with unmet basic needs (UBNs) and thereby help to reduce the UBN index by 20%. Since the urban infrastructure projects will accrue to the benefit of all residents of a municipality irrespective of their income level, the program cannot be classified as poverty-targeted for purposes of paragraph 2.15 of the Eighth Replenishment document.

H. Risks and benefits

1. Benefits

5.22 Investment projects under this program should help to improve the quality of life of approximately 350,000 residents of departments outside Montevideo, 175,000 of whom live in households with UBNs (out of the 550,000 total with UBNs residing in the interior). It is estimated that the program will reduce the number of households with UBNs by at least 20% as a result of investments in sanitary sewers, storm drains, solid waste management and barrio improvement, which factor heavily into the "UBN" classification in Uruguay.

5.23 The program is expected to help create an enabling environment for private investment and the ensuing advancement of departments in the interior by means of actions such as improvements in physical conditions and infrastructure of towns and cities and in the efficiency of municipal management. Particular emphasis will be placed on furthering DG efforts to devise measures to help small and medium-sized companies, such as streamlining bureaucracy to set up business, improving access to services, etc., all of which should foster local development.

5.24 The planned initiatives to make departmental management more efficient will reduce these governments' recurrent expenses, bolster their capacity for investment in public works, and improve the quality of city services.

2. Risks

5.25 Experience under the earlier programs suggests the importance of paying due heed to the difficulties and delays encountered in their implementation, particularly as regards procedures for tendering and construction. This experience is all the more relevant for a decentralized program under which DGs will assume responsibility for calls for tenders. A number of measures have been adopted to avert problems of this type: (a) standard bid documents will be used to acquire goods and services for the program; (b) the executing unit will provide technical assistance in the preparation of all bid documentation, primarily for international tenders; (c) all contract awards above the prescribed discretionary limits will require the Bank's ex ante approval; (d) technical supervision for a project must have been commissioned before the construction contract can be awarded; and (e) for sanitation projects, there must be assurances of financing arrangements to make certain that households will be connected to the new systems built. A fragmented management pattern caused some problems in the earlier operations (executed by MTOP, OSE, MEF and OPP). Responsibility for managing PDM III will be concentrated in a single entity, the OPP.

5.26 Whenever an investment is made in institution-strengthening, there is always a risk that project outcomes will be compromised by changes in management, weak technical capacity, or replacements of or inadequate absorptive capacity on the part of local staff. A further risk is that local leaders might not build the strategic planning methodology into their decision-making process. Any premise that depends on human behavior presents some measure of uncertainty.

5.27 To minimize these risks, there is provision for contracting out the implementation and start-up of integrated systems, including staff training. It is expected that, once the new administrative, financial and tax systems have been implemented and institutionalized with the support of the program, it will be easier to ensure

their continued use. The same holds true with respect to decision-making on the basis of the strategic planning process and technical appraisal of projects, both of which began with this program and are now widely used locally. The OPP has pledged to continue its technical support in project planning and analysis and to serve as a link between departmental and national planning. This constitutes an incentive to the departments and will further the development aims of this program.

MUNICIPAL DEVELOPMENT PROGRAM
Logical Framework

	INDICATORS	MEANS OF VERIFICATION	ASS
y of departmental governments ed governing entities and evelopment	– Public perceptions with respect to management effectiveness of DGs – Acceleration of GDP growth in departments in the interior (by 5% over the yearly averages) – Increase in the funds administered by the DGs (real growth of 10% over the 1995 base-year figure)	– Monitoring surveys – Data from Central Bank, INE, OPP and other official sources	– Stab mac clim
city of the DGs in the technical nd for the management of works nic and social development the departments	– Increased efficiency and better quality of municipal management, measured by: – A 10% reduction in payroll costs as a percentage of total expenditure – A 10% real increase in own resources – A 10% increase in investments – A 50% decline in the consolidated financial deficit (since the start of the administration) – Percentage of population with UBNs in the interior reduced by 20%	– Annual accounts of each DG – OPP data – INE survey of households with UBNs	– Rule mur are liber
estment projects in the 18 depart- identified in strategic in the following sectors: ent d roads d promotion of productive	The following investments have been made in sectors eligible under the program: 28 barrio improvement projects (US$18.5 million) 3 sanitation projects (US$8.4 million) 11 urban street and road projects (US$6.4 million) 10 drainage projects (US$15.7 million) 5 solid waste projects 10 economic development projects (US$5.8 million)	– Program's monitoring system – Data from PDM III administrative and financial control systems	– No h disb prog
gthening of DGs in following ax management (tax administra- budget and cost-control systems) dvisory support and adminis- agement information, human nt, urban planning, economic cipal-service-privatization systems)	The following systems and services are in place: – Integrated accounting and budget systems in 13 DGs – Municipal tax administration and collection systems in 16 DGs – Management information systems (cost control, construction and project tracking and other systems) in 16 DGs – Human resource administration systems in 10 DGs – Technical assistance provided in: . Economic promotion: 12 DGs . Urban planning: 11 DGs . Privatization of municipal commercial or industrial services or activities: 7 DGs	– Municipal Development Unit progress reports to IDB on projects prepared by program's administrative and financial control unit	Political of DGs t institution projects

MUNICIPAL DEVELOPMENT PROGRAM
Logical Framework

	INDICATORS	MEANS OF VERIFICATION	AS
es training	Municipal employees trained in courses and workshops on: – Development management: 175 employees – Applied data processing: 1,325 employees – Procurement and contracting: 125 employees – Environmental issues: 125 employees	PDM III administrative and financial control data	
cooperation s of interest to all DGs	Development of databases and implementation of the following applications at the intermunicipal level: – Vehicle registration control – Bid documents; procurement prices – Urban legislation		
l finances and services	Study on the role of departmental governments in the delivery of public services and alternatives for financing their investments has been completed (1998).		

ANNUAL BENCHMARKS

STMENT COMPONENT (INVESTMENTS BY SECTOR AND YEAR)

(Amounts in US$000)

SECTOR	1997		1998		1999		2000		TOTAL	
	Nº Proj.	Amount	Nº Proj.	Amount	Nº Proj.	Amount	Nº Proj.	Amount	Nº Proj.	Amount
Improvements	8	5,381	8	5,381	9	6,054	3	1,182	28	17,998
Sanitation		2,459	1	2,459	1	2,766	1	768	3	8,452
Urban streets and roads	2	1,872	3	1,872	4	2,106	2	585	11	6,435
Drainage	2	4,579	3	4,579	3	5,152	2	1,431	10	15,741
City services		587	2	587	2	661	1	184	5	2,019
Development promotion	2	1,121	3	1,121	3	1,262	2	350	10	3,855
TOTAL	14	16,000	20	16,000	22	18,000	11	4,500		54,500

TUTION-STRENGTHENING COMPONENT (PROJECTS COMPLETED/SYSTEMS IN PLACE PER YEAR)

AREAS	1997		1998		1999		2000		TOTAL	
	Nº Proj.	Amount	Nº Proj.	Amount	Nº Proj.	Amount	Nº Proj.	Amount	Nº Proj.	Amount
Tax administration	4	700	5	900	5	850	2	300	16	2,750
Accounting and budget	3	150	5	230	4	200	1	50	13	630
Management advisory support (1)	3	150	6	300	5	250	2	100	16	750
Personnel systems	1	50	3	150	2	100	1	50	7	350
Urban planning	2	60	4	160	4	140	1	30	7	
Economic development	2	40	4	90	4	120	2	40	12	290
Privatization/Concessions	1	30	3	110	3	50			7	190
Training (courses):										
• Development management	(2) 50	110	75	125	50	90			175	35
• Computers	400		400		400		125		1,325	265
• Procurement	50		75						125	25
• Environment	50		75						125	25
Intermunicipal cooperation										
System set in place			1	200					1	200
Study conducted			1	50					1	50

Notes:

(1) Includes projects in the areas of management advisory services, information and internal control systems, and others as required.

(2) No. of projects = Employees trained

SUMMARY OF DEPARTMENTAL STRATEGIC PLANS

ent	Economic development strengths	Strategic purpose of the plan	Main actions proposed in the plan	Projects proposed for PDM-III
	Metropolitan residential (Montevideo); fruit and vegetable growing; industry; tourism	Promote closer public/private sector interaction; strengthen local government's role in development	• improvement of urban and rural roads • development of productive sectors • urban land-use planning • increase municipal government efficiency	• supplementary paving • solid waste management service • institution of planning systems • upgrading of budget, finance, lanc systems • training
	Tourism; citrus fruit and vegetable growing; dairy	Develop the department's dynamic economy and improve quality of life with more services and basic infrastructure	• urban improvements • apply management systems to maximize municipal taxation and administrative capacity	• barrio improvement • sanitation • computerization of financial and ta administration • develop a GIS
	Agriculture (crops, livestock); agribusiness; tourism; river transport	Mobilize private investment via necessary infrastructure and services, especially for low-income sectors	• improve city streets • expand storm drainage systems • increase tax efficiency	• street paving • waterworks for flood control • streamlining and computerization administration
	Agriculture (cereal grains); forestry; sheep-raising; tourism	Promote farming; improve urban land-use planning; improve municipal services	• improve rural roads • barrio improvement • urban planning • improve workings of municipal government	• road paving • paving and drainage in barrios • upgrading of accounting systems
	Agriculture (rice); dairy; forestry; trade with Brazil	Support new economic activities; provide infrastructure to equip the agriculture sector for the global market	• upgrade paving in urban areas • expand storm drainage systems • administrative reorganization of departmental government	• barrio improvement • storm drainage works • upgrading of accounting systems • institution of management systems procurement
	Agriculture (crops, livestock); forestry; tourism	Stimulate production and private investment by making basic city services more widely available	• upgrade road system • improve basic sanitation • promote opportunities for private enterprise in the department • modernize workings of municipal government	• pave access roads • barrio improvement • institute new development manage systems • computerize tax administration
	Tourism; forestry; mining (incl. mineral water)	Diversify economic activity in the department via more services and infrastructure	• support for tourism infrastructure • general upgrading of urban infrastructure • improve workings of municipal government	• works in city parks, campgrounds, • barrio improvement, street paving • setup of a master taxpayer register for government employees

SUMMARY OF DEPARTMENTAL STRATEGIC PLANS

nt	Economic development strengths	Strategic purpose of the plan	Main actions proposed in the plan	Projects proposed for PDM-III f
	Tourism	Consolidate economic development around tourism	• improve basic sanitation for those of few means • urban land-use planning • *improve workings of municipal* government	• barrio improvement, with sanitatior • institution of a physical planning s • institution of municipal real-time in *systems*
	Agriculture (rice); stock-raising; forestry; mining	Strengthen economic activity via more basic services and better municipal management	• improve road system • start up a municipal private investment promotion service	• paving of access roads • establishment of new private-enter promotion activities in municipal g
	Forestry; wood products industry; transportation (including river *transport); tourism*	Make more rational use of the department's resources through *wider availability of basic services*	• infrastructure works complementing national ones • *environmental improvement in* urban areas • improve workings of municipal government	• barrio improvement, with sanitatior • sanitary landfills • updating of financial and tax mana
	Metropolitan residential (Montevideo); fruit and vegetable growing; dairy; agribusiness	Promote productive activities and improve quality of life, maximizing efficiency of municipal services	• road works • paving • better solid waste collection	• paving of urban streets • barrio improvement • more efficient solid waste collectio
	Tourism; dairy; stock-raising	Strengthen municipality's institutional structure for better delivery of city services	• improve local infrastructure, complementing national infrastructure • update tax administration systems	• barrio improvement • computerization of government's a systems

PROCUREMENT PLAN - PROJECTS IN SAMPLE

CONTRACTS BY DEPARTMENT AND AMOUNTS		FINANCING (US$000)			METHOD	PRE-QUALIFI-CATION	ESTIMATED PUBLICA-TION DATE
		IDB	LOCAL	DG			
CANELONES							
Urban improvement Las Piedras	US$422.20	295.54	126.66		LCB	NO	4/96
CERRO LARGO							
Calle Miguel Barreiro	US$709.10	496.37	212.73		LCB	NO	1/97
Cañada Juan Pablo	US$2,076.40	1,453.48	622.92		ICB	NO	2-3/97
DURAZNO							
Paving, Sarandí el Yí	US$553.20	343.77	147.33	62.10	LCB	NO	4/96
Bus terminal Durazno	US$777.80	544.46	233.34		LCB	NO	2-3/97
Piping SW Durazno	US$2,844.60	1,131.90	485.10	1,227.60	ICB	NO	1/98
FLORES							
Parque Lavalleja Trinidad	US$630.40	441.28	189.12		LCB	NO	4/96
LAVALLEJA							
Improvement, Sur de Minas	US$941.20	482.02	206.58	252.60	LCB	NO	4/96
Barrios Olímpico y Firenze Minas	US$156.80	109.76	47.04		LCB	NO	3-4/97
Calle Intercom. Minas y Puente	US$689.70	482.79	206.91		LCB	NO	1/98
Calle Ugolini y Bodin Minas	US$415.70	290.99	124.71		LCB	NO	3/98
Afforestation, Minas	US$184.30	129.01	55.29		LCB	NO	1/99
MALDONADO							
Sanitation NW Maldonado	US$4,467.00	1,370.60	587.40	2,509.00	ICB	NO	1/97
PAYSANDU							
Solid waste management	US$687.50	341.25	146.25	200.00	LCB	NO	1/97
RIO NEGRO							
Urban integration Fray Bentos	US$849.80	594.86	254.94		LCB	NO	4/96
Planning B° Preventorio	US$270.20	189.14	81.06		LCB	NO	1/98
Access Fray Bentos	US$170.60	119.42	51.18		LCB	NO	4/98
Young 1 Calle Asencio	US$194.60	136.22	58.38		LCB	NO	4/97
Young 2 Calle Hervidero	US$182.20	127.54	54.66		LCB	NO	4/97
Young 3 Calles Rincón y Piedras	US$907.90	635.53	272.37		LCB	NO	3/98
SALTO							
Regularization A° Sauzal	US$2,530.80	1,771.56	759.24	2,269.40	ICB	NO	1/97
Envir. improvement Ceibal	US$3,797.60	1,069.74	458.46		ICB	NO	2-3/98
SAN JOSE							
Drains 2nd stage Libertad	US$735.90	515.13	220.77		LCB	NO	4/96
TACUAREMBO							
Storm drains B° Audemar	US$443.50	310.45	133.05		LCB	NO	4/96
B° La Palma	US$224.50	157.15	67.35		LCB	NO	1/97
Improvements A° Sandú	US$1,275.50	892.85	382.65		LCB	NO	3-4/97
TREINTA Y TRES							
Access Fructuoso Del Puerto	US$297.20	208.04	89.16		LCB	NO	4/96
Access Aparicio Saravia	US$1,200.30	840.21	360.09		LCB	NO	4/96
B° Tanco Treinta y Tres	US$298.30	208.81	89.49		LCB	NO	4/97
Valentín Olivera Treinta y Tres	US$145.50	101.85	43.65		LCB	NO	4/97
TOTAL		**15,791.72**	**6,767.88**	**6,520.70**			

LEG/UR-1229

PROPOSED RESOLUTION

URUGUAY: LOAN No. /OC-UR TO THE REPUBLICA ORIENTAL DEL URUGUAY

Municipal Development Program III

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 República Oriental del Uruguay, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Municipal Development Program III. Such financing will be for the amount of up to US$54.600.000, which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Terms and Financial Conditions" and the
" Special Contractual Conditions" of the Executive Summary of the Loan Proposal.