

STRENGTHENING OF THE PUBLIC WORKS AND SERVICES CONCESSION SYSTEM

(TC-96-07-19-6-UR)

EXECUTIVE SUMMARY

EXECUTING AGENCY: Office of Planning and Budget [Oficina de Planeamiento y Presupuesto] (OPP)

BENEFICIARY: Republic of Uruguay

OBJECTIVES: To strengthen and add momentum to Uruguay's public works and services concession system by improving its legal framework, institutions, organization, methods, environmental impact elements and promotion and helping to implement specific concession projects.

DESCRIPTION: The program's activities are grouped under five subprograms. The first four target various angles of the institution-strengthening objectives by addressing the various groups of problems encountered. The fifth subprogram will support actual implementation of concessions. The subprograms are summarized below:

A subprogram for development of legal and operational instruments will prepare and disseminate such instruments to fill gaps in the legal and institutional framework, standardize clauses common to all concession contracts, and institute the means to supervise and monitor concession contracts.

A subprogram for studies and institutional development will provide technical assistance to the OPP, the MTOP and other agencies that are instrumental in awarding concessions, with a view to building up their capacities for concession planning and design and for selecting and overseeing concessionaires. Under this subprogram, methods consistent with modern international standards and practices will be introduced in the concession system and government professionals will receive training in these subjects. The subprogram's activities will include identification and inventory of concessionable projects, the introduction of a standard preliminary transaction review method to be used when preparing concessions, facilitation of concession financing and establishment of organizational criteria for proper monitoring and environmental control of the concessioned projects.

A **training** subprogram consisting of specific activities to raise the caliber of the institutional personnel in charge of implementing and operating Uruguay's concession system. International experts will provide advice in how to award and operate concessions and government professionals will visit other countries for a firsthand look at their experience with concessions.

A **promotion and publicity** subprogram will publicize Uruguay's concessions system and encourage Uruguayan and international private sector involvement in the competition for concession projects.

A subprogram of **support to specific projects** will involve consulting services to help implement certain priority projects: the highway concessions (on routes 1 and 11), and the concession for the container terminal at the port of Montevideo.

FINANCING:	Modality:	Grant - Window I
	Local contribution:	US\$ 455,000
	MIF:	<u>US\$1,025,000</u>
	Total:	US\$1,480,000

IMPLEMENTATION SCHEDULE:	The program will be carried out over a 24-month period, with a 30-month disbursement period.
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ENVIRONMENTAL CLASSIFICATION:	The Environment Committee, at its meeting of December 3, 1996, classified this as a Category III operation. The Committee recommended that an evaluation be done and proposals developed on ways to improve the existing standards for quality control of concession projects' environmental management, starting with their preparation and construction through to their operation and monitoring. Also included would be a critique of how these standards are being applied in projects already in progress. These recommendations have been included in the description of the activities planned under the program.
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BENEFITS:	The program will put into place a permanent institutional system and structure to develop a concession system compatible with international practice. The coordinating function served by the OPP will be stronger, legal tools and methods will be developed, technical staff of government agencies with authority over the matter will be trained and support will be provided to carry out priority projects.
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PROFILE: The Programming Committee took note of the profile approved at its meeting of November 14, 1996.

CONSISTENCY WITH BANK STRATEGY: The program will help create a climate that is more conducive to private participation in infrastructure projects, which is consistent with the Bank's priorities for the country in that it will: (i) increase competition in the productive sectors by making delivery of infrastructure services more efficient; and (ii) give the private sector the opportunity to provide works and services traditionally supplied by government.

RISKS: The major risks for the program are those that might ensue from weak interagency coordination or insufficient involvement on the part of a number of government agencies which have a direct say in preparing and awarding concessions. These risks were discussed at length when the program was being prepared and were taken into account in its design. The main prerequisite for accomplishing the proposed goals is that the OPP, the MTOP and sectoral agencies with authority in the area of works or services concessions take active part in the program, which will happen if the program executing unit (PEU) is adequately staffed and functions properly and if the activities are effectively carried out. These prerequisites are reflected in the preliminary plan of action already agreed upon with the government. The content and functioning of the program were amply discussed and decided with high ranking government officials. In fact, activities to publicize the program and explain its objectives and scope were already in progress when it was still on the drawing board. Central government agencies and decentralized agencies played an important role.

SPECIAL CONTRACTUAL CONDITIONS: By way of the executing agency, the recipient is to submit the following prior to the first disbursement, to the Bank's satisfaction: (i) evidence that the PEU has been formed and that personnel with the qualifications and experience necessary to administer and coordinate the program have been detailed to it; (ii) the program's initial work plan, based on the plan of action tentatively agreed upon, with the planned activities and their timetable, the goals to be accomplished and an itemization of the activities in the first six months; (iii) the final terms of reference for contract consulting services under the various subprograms.

I. COUNTRY ELIGIBILITY

- 1.1 On October 6, 1993, the Donors Committee of the Multilateral Investment Fund (MIF) declared Uruguay eligible for all modalities of MIF financing.

II. BACKGROUND

A. Infrastructure and public services in Uruguay

- 2.1 The scope and coverage of Uruguay's infrastructure services is one of the best in the region when one considers, for example, the total number of kilometers and density of its road system and the coverage of the electric power, water and sanitation utilities. The foregoing notwithstanding, on the whole this infrastructure is in rather poor condition because of delays in replacing and expanding the existing capacity, inadequate maintenance and, in some cases, obsolete designs not up to modern technical standards and unable to cope with today's demands.
- 2.2 Reacting to this state of affairs, in recent years the Uruguayan government has been encouraging private investors to play a role in providing services on a concession basis, or in building public works for maintaining or expanding concessioned services by charging fees or tolls. The move to involve the private sector in public works and services is part of a more sweeping government economic reform package and also partly a function of the increasing integration with the other countries of the Southern Cone Common Market (MERCOSUR).

B. Concessions policy and law

- 2.3 The Uruguayan government's policy is to rely more heavily on the concession system to involve private business in building works and providing services. The idea is not just to increase the public sector's capital financing capacity, but also to make a number of sectors more efficient by increasing competition within them.
- 2.4 At the present time, the principal concession-related laws are Law 15,637 (1984), which authorized concessioning of public works and services to private businesses; Ports Law 16,246 and its Regulatory Decree 412 (1992), regulating concessions to operate businesses in ports and provide services there; and Law 16,736 (1995), the five-year budget law for the 1995-1999 period, which allows concessions for private businesses to build water and sewerage works and provide those services in the country's interior and to build and operate railway services.

2.5 A bill already passed in one house of the Congress would establish the regulatory framework for the electric power sector and introduce competition in power generation by creating a wholesale electricity market. Under the law, concessions could be granted to private operators for transmission and distribution. Along this same line, the government is also proposing a new regulatory framework for the petroleum, petroleum byproducts and natural gas industries.

2.6 The present program would add provisions to the existing laws or regulations and carry out institution-strengthening activities so that the concession system can be used to better advantage as an investment and finance tool in various areas of economic activity.

C. Recent experience with concessions

2.7 In Uruguay, public works and services concessions are a relatively new development. Concessions were awarded between 1992 and 1995 in the transportation infrastructure area for the following: enlargement and repair of the Montevideo-Punta del Este divided highway; the commuter and interdepartmental bus terminals in Montevideo; operation of the cargo terminal and ground services at Carrasco Airport (Montevideo); reconstruction and expansion of the runway and terminal, and operation of the Laguna del Sauce (Punta del Este) airport; and the use and development of areas and facilities in the port of Montevideo, as well as services to vessels.

2.8 In the energy area, a private firm with a concession awarded in 1995 is currently expanding the network of gas pipelines in Montevideo. In the not-too-distant future, concessions might be awarded to operate the Buenos Aires-Montevideo gas pipeline and expand distribution of natural gas in urban areas along the banks of the Uruguay River should the gas pipeline in the Argentine province of Entre Rios be extended as far as the river's west bank.

2.9 Another area with promising concession prospects is water supply and sewerage. These services are already being operated on a concession basis at the beach resorts of Barra de Maldonado and José Ignacio. The concessions for these services in Punta del Este and Costa de Oro de Canelones are being prepared.

2.10 On balance, the concessions that have already materialized represent investments of some US\$280 million that have expanded the available services and infrastructure and improved their quality. The concession system is becoming increasingly institutionalized, as various public agencies have had varying degree of exposure to the subject and have been forming technical teams familiar with the way concessions are organized and operate.

D. Problems encountered

- 2.11 To escalate and expand the concession process and make it more efficient, certain problems that occurred in previous concessions and in a number of failed attempts have to be corrected. Examples of these problems are: (i) the private sector showed little interest in the bidding and its participation was limited; (ii) the selection of private operators took too much time; (iii) difficulties arose during contract negotiations and implementation of the concession was sometimes delayed; and (iv) differences arose during the private operation of the services.
- 2.12 These problems were caused by inadequate concession planning and management, such as: (i) the publicity and promotion was either too limited or targeted at the wrong audience; (ii) bid documents were vague on the objectives, did not make clear the ground rules by which the private operator would be bound, and failed to provide a picture of the sector's medium- and long-term growth and of the roles of public and private agents; (iii) in the bid documents, the profile and experience required of prospective bidders were not made clear; (iv) in some sectors, there were no rules or regulations stipulating the modalities and conditions for interaction among agents of the sector in question, whether public or private; (v) little feedback was forthcoming from the institutions and personnel involved in the early concessions awarded; (vi) government agencies that regulated or controlled the concessioned business or other related businesses did little to coordinate with each other; (vii) the guarantees demanded of private firms interested in construction or service concessions were excessive; and (viii) the roles and authorities of government agencies in charge of oversight of private operators and of enforcement measures were not sufficiently well defined.

E. Strengthening of the concession system

- 2.13 The concession system needs to be strengthened immediately since various concessions for works or services are either already in the pipeline or have been identified by the government, especially for highway transportation, international bridges, commercial and recreational ports, airports, transport and distribution of gas, and water and sewerage.
- 2.14 Institutionally speaking, relations among the various agencies involved in the concession process have to be tighter and better coordinated, which means the system needs coordination mechanisms and standardized methods to avoid the kinds of problems that arose with previous concessions, facilitate interagency work, and make the entire public sector more proficient in preparing, awarding and monitoring concessions.

- 2.15 Also, the country is still learning how to apply national environmental protection standards where concessions are involved, both because the environmental laws are relatively new and because thus far few public works concessions have been awarded or are up for bids. A more complete concessions policy will require clear standards and procedures concerning environmental impact assessments, responsibility, and timely presentation, so as to lower the private investors' risk of lawsuits, civil liability and costs not reflected in the original projects.
- 2.16 To make the existing public works and services concession system more effective, the government has requested MIF cooperation through this program, which would be coordinated by the Office of Planning and Budget (OPP), a cabinet-level advisory agency under the Office of the President. The OPP has a hand in every concession that requires executive approval and has formed a state reform advisory group [Grupo Asesor de Reforma del Estado] (GARE) to work on the issues of privatization and concession. The program will clarify the OPP's role in articulating and coordinating concession policy and will make it more effective.
- 2.17 The institutional strengthening will also extend to the Ministry of Transportation and Public Works (MTOP), the government agency with authority over most of the concessions already granted and those planned. The program will build capacity in the Ministry for designing and developing the transportation infrastructure concessions program, and will make the agencies under it more proficient at preparing and putting through concessions in their respective areas. The MTOP has formed a technical team that will participate in the program and will appoint the project executing unit (PEU). Other sectoral agencies that plan, design and manage concessions will also benefit from the program because their specialists will be the technical counterpart personnel for the studies conducted, serve on working groups and participate in training events. The training activities will also be for professionals in the private sector who are somehow involved in the business of concessions.

F. The program's complementarity with other Bank activities

- 2.18 The present program dovetails well with other Bank-supported initiatives currently in progress and designed to give the private sector a greater role in building and operating infrastructure. As noted earlier, with support from the MIF (technical cooperation ATN/MT-5276-UR on energy sector reform) the government is pushing for passage of new regulations for the energy sector. The bid documents for the concession to build and operate the Buenos Aires-Montevideo gas pipeline are also being completed, again with MIF support (technical cooperation ATN/MT-5232-UR).
- 2.19 With Canadian CT/FONDOS support, technical cooperation TC-96-10-29-8-UR is being prepared to develop the natural gas

industry. Technical assistance will be supplied on projects involving concessions to tap the reservoir of the Santa Lucía aquifers (for underground storage of natural gas), and to pipe natural gas in cities in the country's interior.

- 2.20 Under its investment sector loan (703/OC-UR) and the associated technical cooperation, the Bank is also helping to study and propose regulatory, institutional and other reforms that increase private business's role in productive sectors.
- 2.21 Finally, this operation is related to a program now being prepared to improve integration corridors and the national primary roads system (UR-0113), increasing the private sector's participation in the highway sector by financing the first contracts in Uruguay for road maintenance by level of service, and a statistical survey of traffic along primary roads.

III. THE PROGRAM

A. Objectives

- 3.1 The program's general objective is to help increase private investment in public works and services, with a strong economic and social impact.
- 3.2 The specific objective is to improve and promote Uruguay's public works and services concession system by strengthening the laws and regulations governing it, the institutions involved, its organization, methods, and environmental and promotional aspects, and by supporting specific concession projects.
- 3.3 The idea is to develop a permanent institutional and organizational structure for developing the concessions system in accordance with international standards, to strengthen the OPP's coordinating role, to develop legal and methodological tools, to train technical staff in government agencies that have some authority in the area, and to assist with certain priority projects. Summing up, the aim is to make the government's concession program more successful and to equip it with the tools it needs to ensure that the concession system functions efficiently in the long-term.

B. Activities

- 3.4 The program's activities are grouped into five subprograms (a summary table appears in Annex I). The first four subprograms cover various aspects of the institution-building objective and address the various groups of problems identified. The fifth subprogram, by contrast, is intended to help implement concessions.

- a. Legal and operational instruments development subprogram;
- b. Studies and institutional development subprogram;
- c. Training subprogram;
- d. Promotion and publicity subprogram, and
- e. Specific projects support subprogram.

1. Legal and operational instruments development subprogram
(US\$275,000)

- 3.5 Under this subprogram, legal and institutional instruments will be developed and disseminated to fill out gaps in the legal and institutional framework of the concessions system, standardize provisions common to all concession contracts and establish methods for supervising and monitoring concession contracts.
- 3.6 This subprogram will endow the concession system with standards and procedures that are consistent with recent international standards and experiences and is designed to correct the problems observed in past concession experiences, mentioned earlier, such as: gaps in the regulatory structure and inadequate coordination among government agencies; imprecise bid documents or concession contracts that were unclear about the government agencies' oversight and enforcement authority and authority to levy penalties, and problems with the organization and coordination of government agencies to monitor a concessionaire's activities.
- 3.7 A specific objective of this subprogram is to develop regulations for Law 15,637 on public works concessions, and other provisions requiring enabling regulation. While preserving the flexibility that the present body of laws affords, efforts will be made to suggest a permanent institutional arrangement, organization and tools for conducting Uruguay's national policy on public works and services concessions, while instituting practices that are compatible with international standards. The regulations considered necessary for the system that will devise, design, approve, regulate and oversee concessions in Uruguay will also be proposed. Specifically, a single standard will be devised for treatment of private initiatives, establishing or adding any provisions deemed necessary for the stated function to be carried out.
- 3.8 A second specific objective of this subprogram will be to standardize the clauses of concession contracts and prepare a practical guide for the design and preparation of concession projects, which will reflect the findings of the review of contracts either already finalized or in preparation.
- 3.9 A third specific objective is to develop technical, administrative and financial guidelines, compiled in a manual, covering all aspects of the supervision and monitoring of concessions, starting with preparation of the final design and continuing on through construction and operation.

2. Studies and institutional development subprogram (US\$395,000)

- 3.10 Under this subprogram, technical assistance will be provided to the OPP, the MTOP and other agencies involved in awarding concessions, in order to build capacity for planning and designing concessions and selecting and supervising concessionaires. Under this subprogram, the concessions system will be equipped with methods that are consistent with modern international standards and practices, and professionals in the public sector will receive training in these areas.
- 3.11 It includes assistance in identifying and making an inventory of projects, economic-financial analysis, development of financing instruments and analysis and control of environmental impact. These activities will be carried out by means of consulting services in the following areas:
- a. Identification and inventory of concessionable projects
(US\$136,000)
- 3.12 In general, independent institutional efforts and initiatives have been behind the concessions planned and carried out thus far. No real effort has gone into shaping a country image as to this subject, and no concession programs have been prepared to promote projects effectively with the private sector in Uruguay or internationally.
- 3.13 The purpose of this advisory assistance is to build and gradually update a pipeline of concessionable projects. Accordingly, strategic and sectoral criteria will be established for selecting projects, new projects that could be concessioned will be reviewed with the sectoral agencies involved, and, on a more tangible level, a data base will be developed that records information on every project, such as investment costs, technical, economic and legal viability, and the main work that needs to be done to make the concession viable.
- 3.14 Works and services in various areas of activity and under the jurisdiction of national agencies will be examined, as will those run by municipal governments if the municipal authorities so desire.
- b. Preliminary transaction review method (US\$110,000)
- 3.15 In the past, the private sector has shown little interest in concessions from the national public sector. Here, it is vital that the agency granting the concession do an ex ante assessment of the risks a venture poses for the potential concessionaire. The rules and conditions established for a concession must split the risks reasonably between the party offering the concession and the concessionaire, and should enable potential concessionaires to put together investment and operation proposals whose tariffs,

investments, fees or subsidy, etc., are reasonable for the type of works or service in question.

- 3.16 The purpose of this consulting service is to teach professionals how to use the preliminary transaction review method, applying the method devised to case studies of concessions in Uruguay. A practical guide to methods will be prepared so that professionals in charge of evaluating projects and preparing the bidding documents can take an orderly and systematic approach to the economic-financial issues of the deal and its design. Some of the more important such issues are analysis and handling of risks, settlement of agency problems, analysis of return from the private and social standpoints, tariff regulation, incentives and controls and justification of subsidies.

c. Concession finance (US\$99,000)

- 3.17 Because public works concessions are businesses of a very particular kind, financial laws should allow for the possibility of developing proper finance instruments. The purpose of the consulting services envisaged here is to identify and promote measures and reforms that create new ways to finance projects involving the construction of public works or the delivery of services on a concession basis. The study will also determine the amount of financial resources and instruments available on the local market.

d. Organization for monitoring and controlling environmental quality (US\$50,000)

- 3.18 As a rule, public works concessions are awarded for large-scale projects that will have appreciable effects on the environment. In Uruguay's case, one critical aspect still needs to be clarified, which is the roles that the party granting the concession and the concessionaire play with respect to preliminary environmental impact assessments, obtaining the authorizations required by law and measures to mitigate and control impact.
- 3.19 The consulting service proposed here would complement the technical assistance being received by the National Environment Directorate [Dirección Nacional de Medio Ambiente] (DINAMA), which is part of the Ministry of Housing, Land-use Planning and Environment (MVOIEMA), under technical cooperation ATN/SF-4375-UR, for the strengthening of DINAMA's environmental management capacity. This technical cooperation provides assistance to improve elements directly related with the authorization of concessions, such as the quality of the environmental impact assessments and the efficacy of the environmental licensing system.
- 3.20 The consultant will prepare a proposed umbrella policy, specifying the environmental procedures that will have to be followed during all stages of a concession project, under existing law and with the

institution-strengthening activities in progress. This will require an assessment of current legislation and a critical analysis of the practical application of environmental requirements in concession projects under way. The scope and content of the environmental impact assessments required for the call for proposals on concession-based projects and the division of pertinent responsibilities will also be determined. Activities will be proposed for the quality control system involved in environmental management of a concessioned project and the tools developed under the specific projects included in the proposed program will be applied. With this last activity, recommendations can be made for subsequent phases of the projects and adjustments made to the tools and activities either designed or proposed.

3. Training subprogram (US\$147,000)

- 3.21 These are specific activities to improve the caliber of the institutional manpower in charge of implementing and operating the concession system in Uruguay, as follows:

a. Assistance of international experts (US\$115,000)

- 3.22 Experts from countries experienced in granting and operating concessions will be invited for each specific sector (highways, ports, airports, sanitation, energy) and, through short-term technical assistance assignments and workshops, conferences and seminars, will explain what that experience has been. Speakers with expertise in a given field will be selected to give well organized, sufficiently detailed presentations, delivered in the proper setting and calculated to enrich the participants' training.

b. Training missions abroad (US\$32,000)

- 3.23 A tour of visits that reflects the government's concession priorities will be planned and public sector professionals sent abroad for a firsthand look at what other countries' experience has been with concessions.

4. Promotion and publicity subprogram (US\$59,000)

- 3.24 This subprogram will publicize Uruguay's concession system, to induce Uruguayan and foreign businesses to bid on the most important projects. The subprogram will draw on the findings of the survey of concessionable projects.

a. Promotional literature (US\$30,000)

- 3.25 Documents will be produced to publicize the concessions system as envisaged in Uruguay, explaining its advantages and the laws enabling the private sector to participate in concession projects. Investment prospectuses will be prepared for priority projects to be promoted.

b. Promotional seminar (US\$29,000)

- 3.26 An international promotional seminar will be organized in 1998 where the framework for private participation in concessions and the major projects in the pipeline will be explained.

5. Specific projects support subprogram (US\$290,000)

- 3.27 As the program was being prepared, a number of specific concessionable projects were identified which, in order to be properly prepared and managed, will require consultant support. Only two of those projects were included in this subprogram: the container terminal project was selected because it was in such an advanced stage of preparation, while the concessions for Routes 1 and 11 were selected because of their direct relation to the UR-0113 project.
- 3.28 Preliminary terms of reference are ready for the consulting services required for the following concessions projects: the Carrasco Airport terminal; the port of Punta del Este; water and sewerage systems along coastal areas of the Department of Canelones, and piped gas distribution in cities in the country's interior. These projects might be good candidates for any additional MIF resources that become available in the future to prepare specific projects.

a. Concession for the container terminal in the port of Montevideo (US\$132,000)

- 3.29 The process of awarding the concession for the container terminal at the port of Montevideo began back in mid-1996. The National Ports Administration [Administración Nacional de Puertos] (ANP) has already published a call for expressions of interest and is now finalizing the bid documents to tender the terminal. It plans to call for proposals in March/April 1997.
- 3.30 Given the importance and complexity of this tendering, two consulting services are planned to help the ANP review the proposals submitted and with the transfer of the container terminal to the concessionaire.

b. Concessions on Route 1 and Route 11 (US\$158,000)

- 3.31 The MTOP's National Roads and Highways Directorate [Dirección Nacional de Vialidad] (DNV) has already awarded the concession for the Montevideo-Punta del Este highway and has invited bids for the concession for the stretch of Route 1 (Montevideo-Colonia) from the Montevideo approach to the city of Libertad. The DNV is also considering the idea of concessioning a second stretch of Route 1, as far as the city of Colonia, in order to complete the expansion and improvement of this important route between Montevideo and

Buenos Aires. A series of improvements along the entire length of Route 11 is also being considered.

- 3.32 Accordingly, consulting services are being proposed to help the DNV examine the financial feasibility of traditional road concessions along the stretch of Route 1 in question and along Route 11, as well as to establish the conditions for the respective tendering. Alternatives for private-sector involvement in maintaining and repairing the country's roads and highways will also be studied.

C. The program's cost and financing

- 3.33 Of the program's estimated total cost of US\$1,480,000, US\$1,025,000 (70%) in nonreimbursable MIF funding is being requested. The Uruguayan government, for its part, will put up the equivalent of US\$455,000 (30%).
- 3.34 The MIF financing will defray the cost of the consulting services to be contracted under the various subprograms; assistance from international experts; a portion of the cost of the promotional and publicity activities; expenses associated with activities to assist with the program's coordination (including development of information systems), and contingencies. The local contribution will be in the form of the salary of the professionals detailed as counterpart personnel in the consulting activities and as participants in the training activities; organization of the international promotional seminar, and other expenses associated with publicizing the concessions; the training missions abroad; the better part of the project executing unit's expenses, and administrative support costs. What follows is a summary of the estimated budget, which is itemized in Annex II.

PROGRAM BUDGET (US\$000)			
COMPONENT	MIF	LOCAL COUNTERPART	TOTAL
Legal and operating instruments development subprogram	233	42	275
Studies and institutional strengthening subprogram	290	105	395
Training subprogram	100	47	147
Promotion and publicity subprogram	40	19	59
Specific projects support subprogram	230	60	290
Coordination and supervision	82	182	264
Contingencies	50	0	50
TOTAL	1,025	455	1,480

D. Administration and execution

- 3.35 The program will be carried out by the OPP and will last 24 months. The executing agency will establish a project executing unit (PEU), which will program, organize, administer, monitor and oversee the program, disseminate its outcomes and findings, and press for implementation of the recommendations and measures resulting from the program.
- 3.36 The PEU's director will be appointed by the OPP and have the qualifications and experience needed for the job. The PEU will also have an alternate director appointed by the MTOP. Other members of the PEU will be a local specialist hired to help coordinate and carry out the program, and technical and support personnel from the OPP's permanent staff.
- 3.37 The PEU will be under the OPP division called the Advisory Group on State Reform (GARE). The program will strengthen this particular OPP division. The core group of the PEU will be from this division, and has already been instrumental in planning and preparing the program. Within the MTOP, the program will strengthen an already established group of specialists that also helped prepare the program. This group is made up of professionals from different disciplines who specialize in concessions.
- 3.38 The PEU will organize working groups which will be the technical counterpart of the various consulting services to be contracted. The groups will be made up of specialists from the OPP, the MTOP and government agencies involved in concession projects such as the DNV, the National Hydrography Directorate and the ANP, to name a few. With these groups, the know-how of the specialized consultants can be passed along to specialists attached to national agencies. They will also serve as a vehicle for internalizing that knowledge and experience in their respective agencies and will help create a network of professionals interested in the subject and common approaches.
- 3.39 The training activities will be coordinated by the PEU in order to establish links with professional training institutions and to create formal, permanent bodies that provide training on concessions issues and on the regulation of public services in general.
- 3.40 Finally, by strengthening various areas of government, consolidating specialized technical teams, providing training under various forms and establishing permanent information and publicity systems, the goal is give the results achieved with the program long-term sustainability.

E. Disbursements, procurement, and contracting of consulting services

- 3.41 Goods and services will be procured and consultants contracted in accordance with Bank and MIF procedures. Given the nature of the activities to be carried out, both consulting firms and individual consultants will be hired. The disbursement period is 30 months.
- 3.42 Prior to the first disbursement, the recipient, by way of the executing agency, must submit the following to the Bank's satisfaction: (i) evidence that the PEU has been formed and that the corresponding staff have been assigned, who are to have the qualifications and experience needed to administer and coordinate the program; (ii) the initial work plan for the program, based on the plan of action tentatively agreed upon, with the planned activities and their timetable, targets to be achieved and a listing of the activities in the program's first six months; and (iii) the final version of the terms of reference that will be used to hire the consulting services under the various subprograms.

F. Supervision

- 3.43 Once the program is under way, the executing agency is to submit twice-yearly progress reports to the IDB to enable it to track the program's progress. Those reports are to contain: (i) an account of progress of the program activities and how much of the work plan has been carried out, including noteworthy matters and problems encountered during the program, if any, and the measures taken to correct them; (ii) the status of disbursements by comparison to the original plan and any expenditures that are imputable to the counterpart; (iii) a summary of the recommendations and outputs of the program, the activities carried out, planned or proposed for the program's implementation; (iv) proposed changes or adjustments that the executing agency feels should be submitted to the Bank, such as changes in deadlines or in allocations among contract items, and (v) a summary of the activities that are to be carried out in the following six months. The executing agency will also provide the Bank with a copy of the consultants' final reports, and the midterm reports and other documents deemed relevant for an analysis of their recommendations.
- 3.44 The technical cooperation agreement will also stipulate the executing agency's obligation to submit the program's financial statements, examined by independent auditors acceptable to the Bank and in accordance with standards acceptable to it.

G. Evaluation

- 3.45 Within the six months following the program's completion, the executing agency will submit a final report with a summary of the activities carried out; an accounting of how the MIF and local counterpart resources were used; the results accomplished; decisions taken as a consequence of the program; the results

expected from those decisions, and the major conclusions and lessons learned.

H. Viability and risks

- 3.46 The program's concept and design are consistent with the government's policy of opening up new areas where the concession system can be used. Concessions have been used in Uruguay for a number of years; the program's concept materialized in the course of government discussions with the Bank, as the country recognized that the concessioning process and the agencies involved therein needed to be reinforced. Therefore, the climate is right for implementing the recommendations and activities that ensue from the program. A political commitment on the government's part and an institutional commitment on the part of the various agencies involved to continuing the concessions process already in progress will be needed.
- 3.47 The chief problems the program might eventually face could be difficulties with interagency coordination, and insufficient involvement on the part of the various government agencies that have a direct hand in preparing and granting concessions. These risks were discussed at length as the program was being prepared and factored into its design. The chief requisite for accomplishing the proposed goals, i.e., active involvement in the program on the part of the OPP, the MTOP and sectoral agencies with authority in the matter of works and services concessions, would be assured with a properly staffed and operating PEU and effective execution of the planned activities. These elements are addressed in the preliminary plan of action already agreed upon with the government. The program's content and operation were amply discussed and agreed upon with the government at the highest level. During preparation of the program, activities were already in progress to publicize it and explain its objectives, content and scope, with central government and decentralized agencies playing significant roles.
- 3.48 No appreciable environmental risks have been found to be associated with the program itself, given the nature of its activities. On the other hand, activities ultimately carried out pursuant to program recommendations could have significant environmental effects, since the number of concessions to build, operate and maintain infrastructure works and associated services would increase, especially in the transportation sector.
- 3.49 Uruguay's environmental laws, and the agency with specific authority in environmental matters (DINAMA) are on the whole adequate for seeing that the environment is protected while the infrastructure projects are being carried out.
- 3.50 Specifically, the present operation would complement the aforementioned technical cooperation with DINAMA, through technical

assistance to address the problems most directly associated with the concessions system, especially organizational arrangements for monitoring and controlling environmental quality, and would provide support to agencies with authority on this matter.

IV. CONSISTENCY WITH THE BANK'S COUNTRY STRATEGY

- 4.1 The climate the program will create will be more conducive to private sector participation in infrastructure projects, which is consistent with the Bank's priorities for the country to the extent that it will: (i) help increase competition in productive sectors by making the delivery of infrastructure services more efficient, and (ii) facilitate private sector participation in building and operating works and services traditionally in the hands of the public sector.

V. FULFILLMENT OF ELIGIBILITY CRITERIA

- 5.1 The financing for this operation is consistent with the MIF's general objective of promoting private investment and expanding private sector participation in the economy so as to accelerate economic and social development, and further the Bank's efforts in support of the policy of encouraging private investment in the construction and operation of infrastructure. The proposal is consistent with the MIF's guidelines for the Technical Cooperation Facility, pursuant to Article III, Section 2 (d) of the MIF Agreement, which makes projects that support increased private investment in infrastructure a priority.

PROGRAM SUMMARY

MIF - TECHNICAL COOPERATION FACILITY URUGUAY - STRENGTHENING OF THE PUBLIC WORKS AND SERVICES CONCESSION SYSTEM (TC-96-07-19-6-UR)		
General objective: To help increase private investment in the construction and operation of public infrastructure and services, with heavy economic and social impact.		
Specific objective: To strengthen and promote Uruguay's public works and services concession system by improving its legal, institutional, organizational, methodological, environmental and promotional aspects and helping to put through specific concession projects.		
Subprogram	Activities	Expected outputs*
Legal and operative instruments development	Regulation of Law 15,637 governing public works concessions, and other legislation	Full proposal ready by month 7
	Proposal for institutional arrangements, organization and tools to implement concessions policy	Full proposal ready by month 7
	Manual for design and preparation of concession projects	Manual completed by month 8
	Guidelines for supervising and monitoring concessions	Guidelines completed by month 8
Studies and institutional development	Identification and inventory of concessionable projects	Inventory ready by month 8
	Preliminary transaction review method	Manual prepared by month 5 — Case studies by month 7
	Concession finance study	Full proposal ready by month 14
	Organization for environmental quality control and monitoring	Full proposals ready by month 14
Training	Assistance from international experts	Hiring of 8 experts during program
	Training missions abroad	Eight missions with 12 professionals, completed by month 16
Promotion and publicity	Promotional literature	Material available by month 14
	International promotion seminar	Seminar held by month 20
Specific projects support	Port of Montevideo container terminal	Support for evaluating proposals completed by month 2 and transfers by month 6
	Concessions for Routes 1 and 11	Bid documents available by month 7

* Completion times calculated from program execution start date.

URUGUAY
BUDGET FOR PROPOSED MIF PROJECT "STRENGTHENING THE PUBLIC WORKS AND SERVICES CONCESSION SYSTEM"
(TC-96-07-19-6)
(in US\$)

COMPONENT	MIF	LOCAL	TOTAL	ITEM
INSTITUTIONAL INSTRUMENTS	233,000	42,000	275,000	17 consultant-months + 25 professional-months support
TECHNICAL STRENGTHENING	290,000	105,000	395,000	
and inventory of concessionable projects	100,000	36,000	136,000	9 consultant-months + 21 professional-months support
transaction review method	80,000	30,000	110,000	8 consultant-months + 18 professional-months support
finance	75,000	24,000	99,000	4.5 consultant-months + 14 professional-months support
monitoring and control of environmental quality	35,000	15,000	50,000	5 consultant-months + 9 professional-months support
	100,000	47,000	147,000	
international experts	100,000	15,000	115,000	8 experts + 12 professional-months + support
missions abroad	—	32,000	32,000	12 missions
TRAINING AND PUBLICITY	40,000	19,000	59,000	
literature	20,000	10,000	30,000	Preparation of informational materials and project prospectuses
seminar	20,000	9,000	29,000	An international seminar in 1998
OTHER SPECIFIC PROJECTS	230,000	60,000	290,000	
video container terminal	100,000	32,000	132,000	9 consultant-months + 18 professional-months support
on Routes 1 and 11	130,000	28,000	158,000	12 consultant-months + 16 professional-months support

URUGUAY
BUDGET FOR PROPOSED MIF PROJECT "STRENGTHENING THE PUBLIC WORKS AND SERVICES CONCESSION SYSTEM"
(TC-96-07-19-6)
(in US\$)

COMPONENT	MIF	LOCAL	TOTAL	ITEM
ON AND SUPERVISION	82,000	182,000	264,000	
ing unit	60,000	182,000	242,000	24 consultant-months + 60 professional-months + 60 secretarial months
hardware and software	22,000	—	22,000	Development of home page and information system
CIES	50,000	—	50,000	Approximately 3% of total cost
TOTAL FOR PROJECT	1,025,000	455,000	1,480,000	

the "Item" column, "consultant" and "expert" items will be paid out of the MIF financing, while "professional", "support" and "secretarial" will be for the account of the local co-financing.

PROPOSED RESOLUTION

(URUGUAY). TECHNICAL COOPERATION PROGRAM
FOR THE STRENGTHENING OF THE CONCESSIONS SYSTEM FOR
PUBLIC WORKS AND SERVICES

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the República Oriental del Uruguay and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document MIF/AT-_____with respect to a technical cooperation, the purpose of which is to strengthen the concessions system of public works.
2. That up to the amount of US\$1.025.000 is authorized for the purpose of this resolution, chargeable to the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above mentioned sum is to be provided on a non-reimbursable basis.