



Simplified Procedure

On or after: 1 February 2006*

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To: The Board of Executive Directors
From: The Secretary
Subject: Peru. Guarantee proposal for a guarantee program for the IIRSA Northern Amazon Hub

Basic Information: Borrower Republic of Peru
Amount up to US\$60,000,000
Source Single Currency of the Ordinary Capital

Inquiries to: Mrs. Claudia Stevenson (extension 2383)

Remarks: This operation was included in the country strategy update, approved by the Board of Executive Directors on 22 June 2005 (see document GN-2257-10), and its amount does not exceed the ceiling established for Group B countries.

References: GN-1838-1(7/94), DR-398-5(5/03)

Other distribution: Representative in Peru

* This date is in accordance with the information contained in document CS-3620 concerning the interruption of the advance-distribution periods for documents during recesses of the Board of Executive Directors.

PERU

**GUARANTEE PROGRAM FOR THE
IIRSA NORTHERN AMAZON HUB**

(PE-L1010)

GUARANTEE PROPOSAL

This document was prepared by the project team consisting of: Claudia Stevenson (RE3/FI3), Project Team Leader; Margaret Walsh (RE3/FI3), who was responsible for structuring the guarantee; José Manuel Cabral (RE3/FI3); Juan Carlos Pérez-Segnini, Gerónimo Frigerio (LEG); Juan Manuel Leño (COF/CPE); Gustavo Guerra-García (consultant); and Isabel Cardona (RE3/FI3).

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://ops/approvals/PDFs/PEen.pdf
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=PE&L=EN
Information available in the RE3/FI3 technical files	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=654611
Annex 3: PPMR	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=654613

ABBREVIATIONS

AADT	Average annual daily traffic
APC	Annual payment for construction
AWMP	Annual works maintenance payment
CAF	Andean Development Corporation
CPAR	Country Procurement Assessment Review
DGASA	Dirección General de Asuntos Ambientales [Directorate General of Environmental Affairs]
EIA	Environmental impact assessment
GDP	Gross domestic product
IIRSA	Initiative for the Integration of South American Regional Infrastructure
IMF	International Monetary Fund
INRENA	Instituto Nacional de Recursos Naturales [National Institute of Natural Resources]
IRI	International roughness index
MEF	Ministry of Economy and Finance
MTC	Ministry of Transportation and Communications
OSITRAN	Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público [Supervisory Agency for Investment in Public Transportation Infrastructure]
PIC	Public Information Center
PPP	Public-private partnership
PRA	Poverty Reduction and Alleviation [project]
PROINVERSION	Agencia para la Promoción de la Inversión Privada [Agency for the Promotion of Private Investment]
SEA	Strategic Environmental Assessment
USAID	United States Agency for International Development

PROJECT SUMMARY

PERU GUARANTEE PROGRAM FOR THE IIRSA NORTHERN AMAZON HUB (PE-L1010)

Financial Terms and Conditions ¹					
Borrower: Republic of Peru			Term of guarantee:		Up to 20 years
Guarantee recipient: Republic of Peru			Grace period:		N/A
Executing agency: Ministry of Economy and Finance			Disbursement period:		
Source	Amount	%	Interest rate:		To be determined
IDB (Ordinary Capital)	US\$60 million		Inspection and supervision fee:		N/A
Local			Service fee:		0.25% per annum
Other/cofinancing					
Total	US\$60 million		Currency:		U.S. dollars
Project at a glance					
<p>Project objective:</p> <p>The program objective is to support the Government of Peru in implementing infrastructure projects using innovative financing arrangements, through support for the Northern Amazon Hub project, by providing a guarantee for the government's payment commitments to the concessionaire.²</p> <p>Special contractual conditions:</p> <p>Before the guarantee can become effective, the executing agency must demonstrate to the Bank's satisfaction that: (a) a concession contract has been signed between the agency awarding the concession ("the grantor") and the concessionaire; (b) agreement has been reached on the principal terms of a trust to administer and coordinate the program's flow of funds. As a condition precedent to disbursement of the guarantee: (a) the concessionaire must have completed the works envisaged for each stage and fulfilled during the construction stage the social and environmental commitments established in the concession agreement, these commitments having been accepted by the grantor; (b) it must be demonstrated that the MTC has made progress in implementing the programs accorded priority in the strategic environmental assessment, including the drafting of an agreement with INRENA; (c) PROINVERSION has presented a legal opinion indicating that the bidding process for the concession has conformed to the procedures and requirements established in Peruvian law; and (d) a trust has been created and continues in effect for program administration, to the Bank's satisfaction. Should the concession be terminated early, the guarantee will cover partial payment of the corresponding annual payment for construction, provided the social and environmental commitments set out in the concession agreement during the construction phase were met, these having been accepted by the grantor (paragraph 3.6).</p> <p>Exceptions to Bank policies:</p> <p>None.</p>					
<p>Project consistent with country strategy: Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]</p> <p>Project qualifies as: SEQ [<input type="checkbox"/>] PTI [<input type="checkbox"/>] Sector [<input type="checkbox"/>] Geographic [<input type="checkbox"/>] Headcount [<input type="checkbox"/>]</p> <p>Procurement: See paragraphs 3.9, 3.10, and 3.11.</p>					

¹ If the guarantee is triggered and converted into a loan, the interest rate used will be the one in effect at the time the guarantee is triggered. It may be changed by the Board of Executive Directors, taking into account the available background information as well as the respective Finance Department recommendation.

² The Government of Peru granted a concession to the private sector to rehabilitate and maintain a 960-km road for a 25-year period. Its commitment is to make annual payments to the concessionaire to permit recovery of the investment within a 15-year period, as of the date the works are accepted.

I. FRAME OF REFERENCE

A. Socioeconomic framework

- 1.1 The Peruvian economy grew by 4.6% during 2004, surpassing expectations from the beginning of the year. This resulted from favorable external conditions and the macroeconomic stability achieved in recent years. The most dynamic components of this expansion were exports and private investment, which grew 12.5% and 8.7%, respectively. Growth in private investment has been based on the mining and hydrocarbon sectors, including notably the Gas de Camisea project. Despite its strong performance, the Peruvian economy has some vulnerabilities: (i) the high level of external public debt and the associated exchange and refinancing risks, and (ii) the imbalance between current assets denominated in soles and dollar-denominated liabilities, in a highly dollarized financial system. On 9 June 2004, the International Monetary Fund (IMF) approved a new standby arrangement in the amount of US\$422.8 million. The IMF program includes structural reforms to promote private investment, improve public administration, reform the pension system that affords special benefits to certain public-service retirees, strengthen the legal framework for decentralization, and reduce the risks of financial system dollarization.
- 1.2 Peru's infrastructure lags behind that of other countries with similar levels of development. The 2002 Global Competitiveness Report rated the overall quality of infrastructure at 3.2 on a scale of 1 to 7, placing Peru 56th out of 75 countries. The indicators for the productive infrastructure sectors suggest that Peru still has a long way to go in developing its productive infrastructure and in terms of the quality of delivery of related services. The state of Peru's economic infrastructure is a hindrance for competitiveness. In recent years, fiscal constraints resulted in a sharp cutback in public investment in economic infrastructure, from US\$762 million in 1998 to US\$384 million in 2002—a reduction of almost 50%. Most of this cutback was in the transportation sector, especially highways, where government investment fell from US\$481 million in 1998 to US\$216 million in 2002.

B. Institutional and regulatory framework

- 1.3 The 1996 Law to Promote Private Investment in Public Infrastructure Works and Services provides the institutional and regulatory parameters for infrastructure concessions. The Ministry of Transportation and Communications (MTC) is charged with making sector policy for private investment in the transportation sector. It is responsible for planning, coordinating, and evaluating transportation policy, and for establishing policy guidelines for private participation in the highway, air, and port sectors. The MTC conducts the relevant prefeasibility, feasibility, engineering, and social and environmental studies, and determines which projects are to be carried out with private investment.

- 1.4 The Agencia para la Promoción de la Inversión Privada [Agency for the Promotion of Private Investment] (PROINVERSION)¹ is in charge of setting policy on private participation in infrastructure and in the preparation, promotion, and awarding of projects involving private-sector participation. The MTC tasked PROINVERSION with promoting the Northern Amazon Hub project under the Initiative for the Integration of South American Regional Infrastructure (IIRSA). Once the relevant analyses were carried out, PROINVERSION included, with the approval of the Executive Council, the request in the private-investment development plan and took charge of the bidding process.
- 1.5 The supervision of concession contracts is the responsibility of the Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público [Supervisory Agency for Investment in Public Transportation Infrastructure] (OSITRAN), which monitors contract fulfillment.

C. Private-sector participation in infrastructure in Peru and IIRSA

- 1.6 At present, concessions have been awarded for airports, ports, railways, and roads, as well as for energy and telecommunications companies that provide services under a private arrangement. The first road concession was awarded in 1994, through the MTC, for rehabilitating and maintaining the Arequipa–Matarani road, and for managing its toll system. In 1997, the government promoted a broad-based program of 12 road system projects under the Build-Operate-Transfer (BOT) mechanism, and in 2003, a concession was awarded for the Lima–Pativilca stretch of the Red Vial 5 toll road, for an expected investment of US\$60 million. The latter is in the preconstruction stage and has received partial funding from the IDB's private sector window (PE-0235). In 2005, the concession for Red Vial 6, which is in the preconstruction phase, was awarded.
- 1.7 The present operation is a strategic project in the Amazon hub, where east-west connections between the Andean countries (Colombia, Ecuador, Peru) and Brazil can be promoted by completing missing stretches of road and developing inland navigation. The Bank is supporting those connections that have the lowest impact. For example, in the Northern Amazon corridor the focus is on upgrading an existing road that leads to where a waterway connection will exist in the future, thereby promoting transportation solutions consistent with the characteristics of the region.

¹ PROINVERSION is attached to the Ministry of Economy and Finance (MEF). It has budgetary and administrative autonomy and is governed by private law. Its Executive Council comprises eight ministers, including the Minister of Economy and Finance, who serves as its chair.

D. The strategy and experience of the Bank and other donors

1. Bank strategy with the country

- 1.8 The Bank's country strategy with Peru for the 2002-2006 period aims to achieve high, sustained, equitable, and inclusive economic growth. To this end, the Bank will support the government's efforts to attain three objectives: (i) make the economy more productive and competitive by removing institutional impediments to greater productivity and investment, and making structural investments in human capital; (ii) make social policy more efficient by supporting implementation of measures to mitigate poverty and to protect vulnerable groups; and (iii) create a modern, decentralized, and efficient State.
- 1.9 The objective to improve competitiveness and productivity under this strategy will be pursued by intensifying efforts to rehabilitate and expand productive infrastructure (roads, ports, airports, telecommunications, energy), seeking an optimal combination of private-sector actions in investment and maintenance through privatizations, concessions, or management contracts. This project will support the objective of raising competitiveness through an innovative strategy of private-sector participation.

2. The Bank's sector strategy

- 1.10 The Bank's strategy in the transportation sector supports competitiveness through the development of logistics and the regulation of overland transport and traffic, private-sector participation in transportation infrastructure and services, and development of public transportation in urban areas. The objective in the road sector is to act simultaneously in the three systems by specializing and clearly defining functions and the sphere of competence of the agencies in their particular systems, and by strengthening management and planning capabilities. This project supports investment in Peru's arterial highway system, by introducing innovative financing elements.

3. Experience of the Bank and other donors

- 1.11 The competitiveness reform program (loan 1503/OC-PE) currently under way in Peru includes development and implementation of a transportation sector policy that encourages private-sector participation and establishes guidelines for private-sector management and investments for upgrading infrastructure, associated services, and the quality and maintenance of operations. The highway rehabilitation and improvement program (loan 1150/OC-PE) is also under way. Its objectives are to: (i) develop an extensive region of the Peruvian highlands by linking it to the coastal economy; (ii) improve programming and investment arrangements; (iii) encourage private-sector involvement through highway concessions; and (iv) boost the MTC's management capacity.

- 1.12 The Bank is supporting PROINVERSION in implementing comprehensive infrastructure concession projects through the program of support for transactions (PE-L1004), which will provide funds for conducting the technical, economic, financial, and legal studies needed to structure this type of project. The Bank is also designing a technical cooperation operation with the Multilateral Investment Fund to support PROINVERSION and OSITRAN in providing institution-strengthening for public-private partnerships (PPPs). The Bank has also supported private investors in the concession process, through its Private Sector Department, for the construction of the Mantaro–Socabaya line of the concession awarded to the Southern Electricity Network (Redesur) through an A loan (PE-0210), a loan to Transportadora de Gas del Perú (PE-0222), a guarantee for Graña y Montero (PE-0216), and a loan for the concession of the toll road project (Red Vial 5) (PE-0235). The lessons learned from these operations highlight the need for sound studies in order to be able to appropriately distribute risk and, especially, for detailed studies of the problems associated with the right of way.

E. The program strategy

- 1.13 The Peruvian government has set substantial requirements for investment in transport infrastructure in a climate of fiscal constraint. The Bank's strategy in the program is to support the government in its efforts to increase its infrastructure investments by involving private agents in investment, execution, operation, and maintenance with efficiency and technological innovation, and the financing of strategic integration projects as part of IIRSA. Support for this operation will foster new productive developments in the economy as a result of lower transportation costs. It will also establish mechanisms that guarantee maintenance and operation meeting service level standards in a 900-km corridor during a 25-year period. At the same time, reducing the perception of risk of payment of the Government of Peru's commitments will improve the program's credit risk.

F. Coordination with other institutions

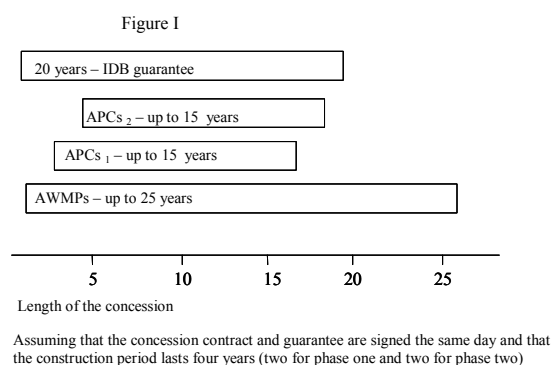
- 1.14 PROINVERSION has an agreement with the United States Agency for International Development (USAID) under which the latter financed the financial, legal, environmental, and economic studies for the project. The project team worked in close coordination with USAID. This program also complements the actions of the World Bank and the Andean Development Corporation (CAF), which are implementing projects to promote private investment in infrastructure projects, by awarding guarantees. The IDB guarantee complements the facility that the CAF has approved for the concessionaire. The CAF facility provides financing during the construction phase, while the IDB guarantee provides credit enhancement during the post-construction phase. Together, the two open up the possibility of attracting domestic and/or international resources to the program.

II. THE PROGRAM

A. Objectives and description

2.1 The program objective is to support the Government of Peru in implementing infrastructure projects using innovative financing arrangements, through support for the Northern Amazon Hub project, by furnishing a guarantee for the Government of Peru's payment commitments to the concessionaire, for executing the road rehabilitation and improvement project on 960 km of the road system (Northern Amazon Hub). The partial credit guarantee furnished in support of the government's commitments with the concessionaire consists of deferred annual payments over a 15-year period once the construction of the works has been completed.

2.2 The concessionaire is responsible for constructing, operating, and maintaining the works, as well as securing the necessary financing for these activities. The concessionaire will recover its investment through the annual payments for construction (APCs) to be made by the Government of Peru. The APC is an annual payment totaling US\$29.5 million for 15 years, starting on the date the government accepts the works presented by the concessionaire. Figure I illustrates the flow of payments. The Government of Peru also commits to guarantee annual works maintenance payments (AWMPs) to the concessionaire that will supplement toll revenue.



2.3 To encourage the participation of private concessionaires and ensure sound financing of the works, the Government of Peru has requested that the Bank grant it a partial credit guarantee for a term of up to 20 years to partially guarantee the timely fulfillment of APC obligations by the Government of Peru, as provided for in the concession contract.

2.4 This operation is consistent with the the objectives of the guarantee policy approved by the Board of Executive Directors in documents GN-1858-2 of 31 July 1995, GN-2196-1 of April 2002, FN-508 of August 1995, FN-568-3 of August 2003, and GN-2311 of May 2004.

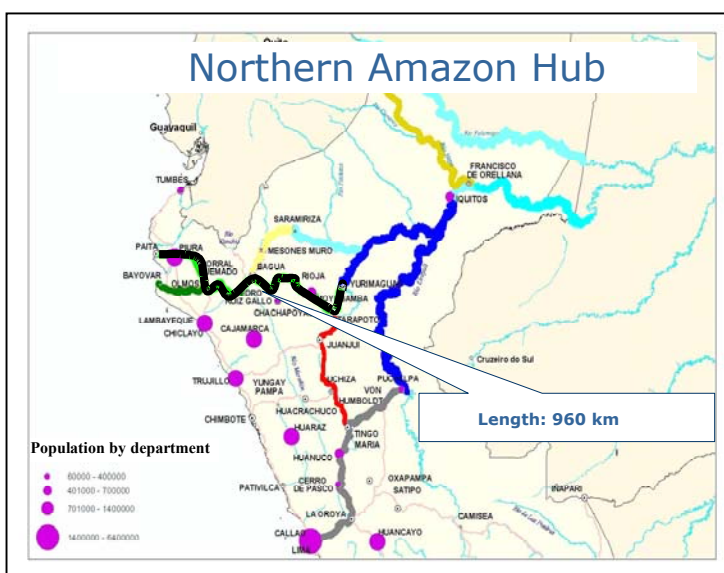
2.5 Pursuant to document GN-1858-2, this guarantee will be granted with a counter-guarantee of the Government of Peru, which will consist of documenting as Bank loans to the Republic of Peru any disbursement the Bank makes if the guarantee is

triggered. These loans will have the same terms as Ordinary Capital loans, with the exception of the grace period and tenor (up to the remaining term of the guarantee).

1. The Northern Amazon Hub

- 2.6 The objective of the project that will receive the proposed guarantee is to foster economic integration between the port of Paita on the Pacific, the city of Piura, and the river port of Yurimaguas on the Huallaga river, which, in turn, connects with the Amazon River. This will promote the establishment of new production centers and boost intra- and inter-regional trade by lowering transportation costs.

- 2.7 The works consist of improving and rehabilitating existing stretches of road, protecting existing works against natural disasters, and building and rehabilitating bridges, by means of a PPP arrangement. Currently, about 90% of the corridor is paved but requires patching and resurfacing of the top course, and paving of the last stretch. This involves preventive works against natural disasters, such as culverts, bank stabilization, protection works, and bridge rehabilitation and construction. The condition of the wearing course and banks between Tarapoto and Yurimaguas makes that stretch the most critical.



- 2.8 The project is divided into six stretches, each with a specific intervention: **(1) Paita–Piura:** reconstruction or reinforcement of all drainage works in the zone, construction of side ditches and embankments, and bank stabilization; **(2) Piura–Olmos:** bridge rehabilitation and improvement, construction of drainage and river protection works, and construction of two bridges; **(3) Olmos–Corral Quemado:** the MTC recently completed the rehabilitation works for this stretch; **(4) Corral Quemado–Rioja:** treatment of critical segments, rehabilitation and reconstruction of pavement, river protection works, and bank stabilization; **(5) Rioja–Tarapoto:** rehabilitation of critical segments, treatment of bank instability, river scouring, erosion; reconstruction of engineering works; and **(6) Tarapoto–Yurimaguas:** improvement and rehabilitation of the wearing course, improvement of the drainage system, reconstruction of trenches, landings, and bridges.

- 2.9 The project consists of two phases. The first corresponds to the works carried out between Tarapoto and Yurimaguas in years 1 and 2 of the concession. The second corresponds to the works executed between Olmos–Piura–Paita, which would begin in year 3 and must conclude in year 4. Once each stage is completed, the Government of Peru will make annual payments for construction (APC) with budgetary resources allocated to the MTC, as well as annual works maintenance payments (AWMP), net of toll revenues. The bidder who bid the lowest sum for the APC and the AWMP, discounted at 10%, was awarded the concession.

Table II-1 Summary of Proposed Works					
Stretch	Length (km)	Basic investment ² (US\$ millions)	Toll booths	Works	Execution period (year of the concession)
Yurimaguas–Tarapoto	125.6	72.17	<ul style="list-style-type: none"> New toll booth when traffic so requires and once upgrade works are concluded 	<ul style="list-style-type: none"> Rehabilitation and improvement Specific improvements in geometry Improvements of the wearing course 	1 to 2
Tarapoto – Moyobamba – Rioja	135.0	23.53	<ul style="list-style-type: none"> Toll both currently operating in Tabalosos 	<ul style="list-style-type: none"> Stabilization of banks and river protection (km 20 to km 56) Rehabilitation of critical zones (km 93 to km 103) Construction of drainage works Rehabilitation of Bolivia and Cumbaza bridges 	3 and 4
Rioja–Bagua Grande–Corral Quemado	274.6	21.58	<ul style="list-style-type: none"> New toll booth in Aguas Claras New toll booth in Pedro Ruiz, operational once the works on the stretch are completed Toll booth in Bagua 	<ul style="list-style-type: none"> Bank stabilization and river protection (km 252 to km 352) Rehabilitation of critical zones on the Naranjitos–Corontachaca stretch (km 259 to km 299) Rehabilitation of the Tingo and Oso Perdido bridges 	3 and 4
Olmos–Corral Quemado	193.6	0	<ul style="list-style-type: none"> Inactive toll booth in Olmos 	<ul style="list-style-type: none"> Has been rehabilitated by the MTC 	0
Olmos-Piura	170.0	71.88	<ul style="list-style-type: none"> Toll booth in Chulucanas closed and a new one opened in Cascajal 	<ul style="list-style-type: none"> Rehabilitation. Improvement of the wearing course to bring it to service levels Construction of bridges 	3 and 4
Piura-Paita	58.7	20.77	<ul style="list-style-type: none"> New toll booth in Paita 	<ul style="list-style-type: none"> Improvement 	3 and 4
Total works	831.00	209.93			
Other investments		10.54		<ul style="list-style-type: none"> Road safety, mandatory services, supervision payments 	
Total		220.47			

² The amounts from the existing studies are taken as the reference for investments, but the basic investment is what is required to maintain service levels. Existing studies are considered a reference for investments because bidders must submit their own technical proposals.

- 2.10 The concessionaire will operate and maintain the corridor at the service levels agreed to in the concession contract, for which it will collect tolls. The AWMP will be covered by toll revenues, and any negative difference between the AWMP requested by the concessionaire and actual toll revenues will be paid to the concessionaire by the government. In the event that toll revenue exceeds the amount requested by the concessionaire, the surplus will be divided as follows: 80% for the Government of Peru and 20% for the concessionaire. Maintenance costs include direct expenses, overhead, earnings, and general sales tax. Operating costs include expenses related to road maintenance management, the provision of mandatory services (toll booths, weigh stations, communication systems, emergency and accident services), toll collection costs, payments to the regulatory agency, and the cost of guarantees and insurance. The AWMP includes an accounting concept that makes it possible to accumulate reserves for periodic maintenance, in accordance with programming proposed by the concessionaire and approved by the grantor.
- 2.11 PROINVERSION furnished the technical files for reference purposes in order to encourage innovation and technical optimization, and so that risk could be transferred effectively. Bidding was based on minimum service standards, and existing designs were provided to bidders for reference purposes. While road safety, roughness, geometry, and vehicle operating costs must be identical for the different options, construction, pavement design, and maintenance alternatives may differ. The concession contract includes social and environmental obligations that are in line with the corresponding Bank policies, for both the construction and the operation phases.
- 2.12 The concessionaire will be responsible for identifying critical road safety issues and proposing activities to improve road safety so as to reduce accidents and fatalities. The concessionaire must also submit and carry out a risk prevention plan for the rehabilitation, improvement, conservation, and operation stages, specifying what measures will be taken to prevent risks to users, the community, the environment, and the works.
- 2.13 Five toll booths are presently in operation, and three more will be added. The new toll booths will be installed gradually between the first and fifth years of the concession. To calculate annual toll revenue for the first two years of the concession (while first phase works are being executed), the toll will be US\$1.34 for each equivalent axle.³ Once the first-phase works are completed, the toll per equivalent axle will be US\$1.50 per vehicle axle per 100 km, which is the national average. This is the “target” toll for the concession system established in national policy. The value of the tolls will be maintained in constant United States

³ Automobiles will be charged the toll for a single axle; trucks with more than two axles will be charged the toll for each axle. In Peru, most trucks have two or three axles.

dollars, meaning that they will be adjusted to reflect variations in the value of Peru's currency.

- 2.14 Once all the toll booths are operational, projected revenues will be around US\$8 million annually, increasing to US\$14 million annually toward the end of the concession. The equivalent annual value of the AWMP, which will vary year to year depending on periodic maintenance needs, is estimated at US\$15.3 million. Thus, toll revenues will partially cover operation, routine maintenance, and periodic maintenance requirements.

2. Guarantee arrangement

- 2.15 The Bank's partial credit guarantee (US\$60 million) will be for the Government of Peru's obligations to cover the annual payments for construction agreed to in the concession contract, including recognition of partial works if the concession is terminated early.⁴ It is a first-loss, rolling, irrevocable, and reinstatable guarantee.
- 2.16 The amount of the guarantee was determined through an analysis performed by Apoyo & Asociados Internacionales S.A.C., a Peruvian affiliate of Fitch Ratings. It found that a guarantee in the amount of US\$60 million structured without amortization of the amount would raise the rating by two levels and would meet the requirements of local and foreign capital markets. This amount also makes it possible for an international issuance to surpass the sovereign rating. With this rating, international investors could support a bond issuance by the concessionaire.
- 2.17 The guarantee will not protect new works agreed to later on by the Government of Peru and the concessionaire, nor will it cover cost overruns of the works. Indemnities or payments not originally included in the definition of the APC will not be protected by the guarantee. During the construction phase, the guarantee will be distributed in a flexible manner, as agreed to by the grantor and the concessionaire. The coverage of the guarantee cannot exceed 100% of the sum of APC payments outstanding.
- 2.18 The funds for the APCs will come from the MTC's budget and will be allocated by the Ministry of Economy and Finance (MEF) for each budgetary period. The MEF's Council of Ministers approved up to US\$29.5 million for annual payments for construction.
- 2.19 Pursuant to document GN-1858-2, the guarantee will be backed by a government counter-guarantee. Should the guarantee be triggered, Bank disbursements to the Government of Peru will convert into a term loan payable to the Bank by the Republic of Peru, which will assume it as a principal obligation in accordance with

⁴ For the purpose of determining the scope of the guarantee's coverage, the definition of the APC in the guarantee contract will be the same as the definition established originally in the concession contract.

the Bank's financial terms and conditions for Ordinary Capital loans. The following exceptions apply: (i) there will be no grace period; (ii) there will be no credit fee; and (iii) the tenor of the loan will not exceed the remaining term of the guarantee. The disbursement may be prepaid in part or in full within 30 days following the disbursement, in which case the amount of the guarantee will revert to the total amount available. As soon as the guarantee has been disbursed, interest will be charged on the amounts disbursed to the Government of Peru, in accordance with the interest rate in effect on that date.

- 2.20 The Government of Peru must pay the service fee (0.25% per annum) in advance for each six-month period to keep the guarantee in force. The guarantee will become effective when the guarantee contract is signed, and will remain available for a period of up to 20 years. The guarantee will be triggered if the Government of Peru delays its payment of the APC once it has accepted the completed works in accordance with the terms of the concession contract. As set out in policy document CN-1858-2, paragraph 3.14, because guarantees are irrevocable, policy-related conditions may not be attached to them once they become effective. For the guarantee to become effective, the concession contract stipulates that the Government of Peru's acceptance of the works will be dependent on verification that the commitments on social and environmental matters set out in the concession agreement have been fulfilled during the construction phase. If the concession is terminated early, the guarantee will cover partial payment of the corresponding APC, provided the social and environmental commitments contained in the concession agreement have been fulfilled during the construction stage and the works were accepted by the grantor.
- 2.21 The Government of Peru and the concessionaire will create a trust mechanism acceptable to the Bank that will be responsible for: (a) notifying the Bank of the acceptance by the Government of Peru of each stage of construction; (b) receiving the annual payments for construction and distributing the funds under the terms agreed to with the concessionaire; (c) notifying the Bank if the Government of Peru fails to make the APCs; (d) receiving the funds disbursed by the Bank as provided for in the guarantee and distributing them; and (e) notifying the Bank in the event of of early termination of the concession.
- 2.22 When the guarantee is triggered because of a delay by the Government of Peru in making some or all of the APC payment commitments, the amount disbursed by the Bank will be converted into a Bank loan to the Republic of Peru, with no grace period and governed by the terms for the Bank's Ordinary Capital loans. The period for repayment of these loans may not exceed the duration of the guarantee contract, and will be determined according to the available amount of the guarantee, as follows: (a) when the available amount of the guarantee is more than or equal to US\$45 million, the period for repayment of the loan will be 15 years; (b) when the available amount of the guarantee is less than US\$45 million but more than or equal to US\$30 million, the repayment period will be ten years; and (c) when the

available amount of the guarantee is less than US\$30 million, the repayment period will be five years.

- 2.23 The amount disbursed by the Bank will be deducted from the available amount of the guarantee. However, the amount the Government of Peru prepays to the Bank will be reinstated to the guarantee. For the guarantee to be reinstated, the Government of Peru must make the prepayment within a period not to exceed 30 days for each disbursement, as of the date the Bank makes the corresponding disbursement.

3. Project risk distribution

- 2.24 The concession contract contains innovative financing elements, and the main risks are assumed by the parties, in accordance with their capacity to mitigate them, bearing in mind that this is both a long and a large project that runs through complex areas such as the Peruvian coast, highlands, and jungle, which have difficult climates, high rainfall risk, and geological and seismic problems.

Figure II

Risk distribution for the trans-Amazon concession in Northern Peru			
	Gov.	Concessionaire	Ins. companies
Commercial (Traffic)			
Engineering			
Critical areas			
Remainder of the route			
Costs			
Up to 5% real annual			
Over 5% real annual			
Execution schedules (loss of potential earnings)			
Service level			
Financing (interest rate)			
Up to LIBOR < 5.4%			
LIBOR > 5.4%			
Liquidity			
Exchange			
Inflation			
Natural disasters			

- 2.25 **Construction risk.** The concessionaire assumes part of the design and construction risks. The APC uses a formula that captures variations in domestic inflation, the exchange rate, and the price of inputs (cost of labor, asphalt, oil, machinery, and equipment). The concessionaire must adhere to the technical proposal it made in its bid, based on the studies available at the time of the competition and in accordance with the specifications made in Annex 9 of the contract. The concessionaire also assumes the engineering and stability risk for the works and must do the detail engineering within the timeframe stipulated in the contract. The concessionaire assumes the risk of loss of potential earnings, which in this case is high due to the high levels of rainfall in the area. Heavy rainfall also may affect the structures built by the concessionaire, triggering the insurance policies and the deductibles to be paid by the contractor.

- 2.26 **Operating and maintenance risk.** The concessionaire will assume responsibility for operation and maintenance, and will agree to maintain the road at the pre-established service levels during the 25-year concession. Maintenance standards will be adjusted to the conditions of each stretch. Noncompliance with operating and maintenance commitments, including the project's environmental management standards, will result in fines that will be deducted from the AWMP. The concession contract creates a fund (the "CMAP") that requires the concessionaire to amass resources for periodic maintenance, based on a program proposed by the concessionaire and approved by the grantor. The fund provides an implicit incentive for the concessionaire to perform the periodic maintenance needed to keep the corridor in optimal condition.
- 2.27 **Financing risk.** The concessionaire assumes the risk of the financing and the associated terms. To mitigate this risk, the Government of Peru is providing an IDB partial credit guarantee on its APC commitments, which will improve the financial profile of the concession. The contract reduces the financial risk by including a formula wherein if the LIBOR is over 5.4%, the grantor will recognize the difference on debt balances.
- 2.28 **Risk of early termination.** This risk is assumed by the parties, depending on the type of event that could result in termination. The guarantee partially mitigates the risk, since, in the event of partial completion of the works, the APCs can recognize partial works if the concession is terminated, once the works have been accepted by the Government of Peru and the amount invested by the government has been quantified. The disincentives for early termination are the fines and penalties established in the contract for works terminated due to noncompliance by the concessionaire, and the partial recognition of works executed.
- 2.29 The contract may be terminated early in the event of serious noncompliance on the part of the concessionaire, in which case the grantor may collect the work fulfillment guarantee or the maintenance and operating guarantee, and may sue for additional damages. The concession contract may be terminated for grantor noncompliance if the causes for termination stipulated in the concession contract are realized, and by mutual agreement, based on the technical opinion of the regulatory body. In the latter case, the liquidation mechanism will be agreed to by the parties. In case of early termination prior to conclusion of the works, the contract contains benchmark prices for the works that will enable the regulator to appraise the work completed. To reduce the risk of a dispute over the value of partial works, the Government of Peru agreed to accept and to establish the value of partial works every time an agreed milestone is hit, documenting its acceptance of each such milestones with a certificate of completion (known as a "CAO"). In the case of early termination, annual payments for construction will continue to be made in the amount agreed to for completed works or for the value equivalent to the percentage of the works completed as certified by the regulator.

- 2.30 **Commercial risk.** The project's commercial risk, reflected in the toll-paying traffic, will be assumed by the Government of Peru. In the economic bid, the concessionaire proposes the annual maintenance resources needed to operate and maintain the corridor (AWMP). The difference between the AWMP and the toll revenues is assumed by the government. If the revenues exceed the AWMP, the surplus will be divided as follows: 80% for the Government of Peru and 20% for the concessionaire. OSITRAN will supervise toll collection, commissioning periodic inspections and audits from specialized firms hired using funds provided by the concessionaire.
- 2.31 **Risk of natural disasters and El Niño.** Along stretches that are critical from a geological standpoint, the concessionaire can propose solutions other than those originally provided for, in order to ensure the stability of the infrastructure. If the grantor authorizes additional construction, the concessionaire is responsible for that stretch. If it does not, the grantor is responsible for any future damage and for repair works, as ancillary works. To address the risks of natural disasters, earthquakes, floods, rain, fire, explosions, and other catastrophes, the concessionaire must take out an insurance policy against all risks for the full replacement value of the goods and works covered by the concession contract. It must also take out insurance on goods in operation that covers, at the very least, 15% of the replacement value of the goods in the concession area. As the 2% deductible will be covered by the concessionaire, this creates an incentive for the concessionaire to perform the necessary maintenance and preventive actions to prevent damage to the works. When the value of replacing the works is greater than the maximum probable loss, the Government of Peru will assume the costs of reconstruction. The use of this type of insurance policy for public works being constructed and in operation is common practice in Peru for works in regions similar to the project area; these are reinsured in the external market. The costs of the insurance policy are included in PROINVERSION's financial model.
- 2.32 **Environmental risks.** The concessionaire is bound under the contract to mitigate the environmental and social risks directly associated with both the project's construction phase and its operation and maintenance phase. In the case of the right of way that has been affected, its long-term rehabilitation is the responsibility of the Government of Peru.
- 2.33 **Macroeconomic risk.** Macroeconomic risk is assumed by the Government of Peru, which guarantees the payment of the APCs and the AWMP in United States dollars and will introduce formulas for updating prices with respect to the main inputs.

B. Cost and financing

- 2.34 The guarantee requested is for up to US\$60 million. The program's reference cost is estimated at up to US\$218 million, which will be financed as follows:
(a) **Construction phase:** The concessionaire will cover up to US\$220 million in

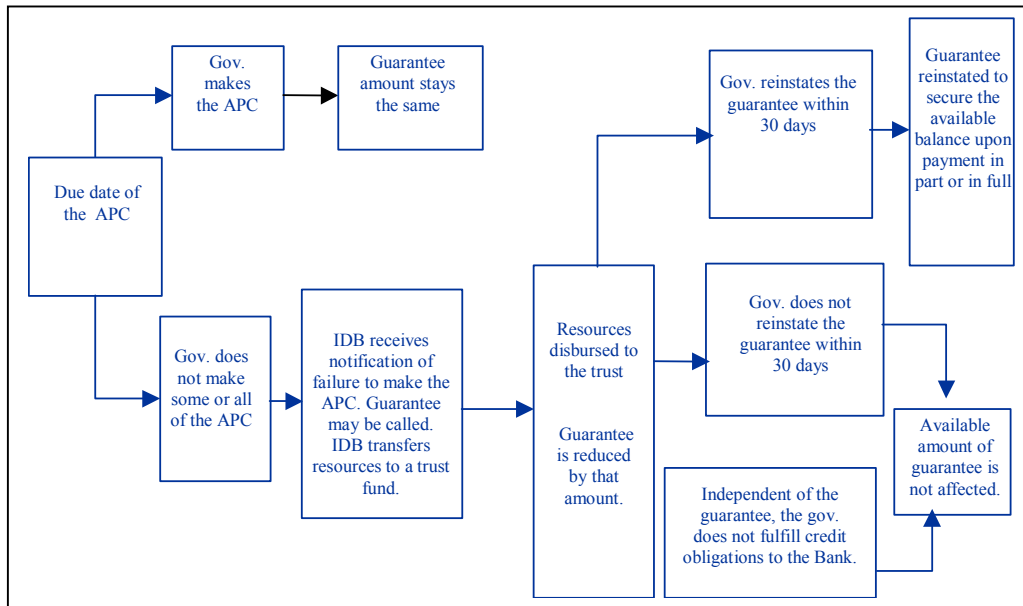
funding, from loan proceeds and own resources. One source of financing available to the concessionaire is a facility from the Andean Development Corporation. The concessionaire has access to that line during the construction phase. The revolving line is for US\$60 million, with a maximum period of three years; and (b) **Operation phase:** Government of Peru contributions in the form of annual works maintenance payments and toll revenues.

1. Terms of the guarantee

- 2.35 The financial terms of the guarantee have been established in accordance with documents FN-508 and FN-568-3 as regards the fees to be charged for the instruments covered by the policy on guarantees (documents GN-1858-2 and GN-2196-1). The obligations emanating from the guarantee contract expire 20 years after it has been signed. Annex II provides a breakdown of the features of the linked loan and how it relates to the guarantee.
- 2.36 The guarantee will be triggered the moment the Government of Peru does not make the agreed payments to the concessionaire. The Bank may reinstate the guarantee once the government has made the corresponding payments in the terms agreed upon. The option of reinstating the guarantee must be taken within a period not to exceed 30 days after each disbursement, running as of the date the Bank makes the payment. The Bank will reinstate the guarantee in the amount that the government pays the Bank, taking into account the last Bank payment made in respect of the guarantee.

Amount of the guarantee:	Up to US\$60 million
Service fee:	25 basis points per annum
Fee collected as of:	The date the contract is signed by the MEF and the Bank
Term:	Up to 20 years
Backing:	Counter-guarantee of the Government of Peru

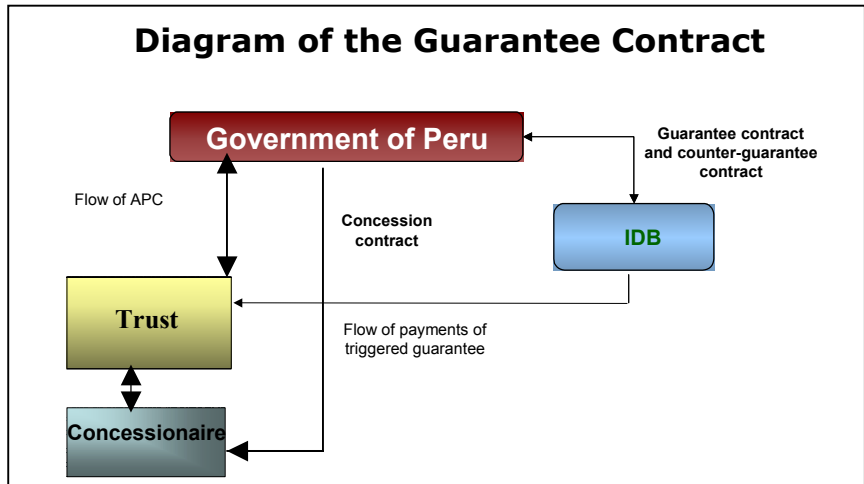
Figure III: Events that may occur during the guarantee



III. PROGRAM EXECUTION

A. Contracting party/borrower and executing agency

- 3.1 The contracting party and potential borrower, in the event the guarantee is triggered, will be the Republic of Peru. For this purpose, a guarantee contract between the Bank, as guarantor, will be signed with the Republic of Peru, as the contracting party. A counter-guarantee agreement will be signed by the Bank and the Republic of Peru. The Ministry of Economy and Finance will sign these instruments on behalf of the Republic of Peru.



- 3.2 The executing agency will be the Ministry of Economy and Finance (MEF), which will be responsible for ensuring that the payments agreed upon for the concessionaire are included in the respective budgets. It will also be responsible for devising the instructions for notifying the Bank should the guarantee be triggered within the framework of the trust established for this purpose. Should the guarantee be triggered, the amount disbursed by the Bank will be converted into a term loan, and the borrower will be the Republic of Peru, through the MEF.

B. Program execution and administration

- 3.3 The MEF will be the executing agency and will be responsible for administering the payments of the service fee and for ensuring that the funds for the APCs are deposited in the trust designated for that purpose. PROINVERSION administered the project during the structuring, promotion, and awarding of the concession, with technical support from the MTC. The Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso [Supervisory Agency for Investment in Public Transportation Infrastructure] (OSITRAN), which is the regulatory agency charged with supervising fulfillment of the concession contract, will supervise the project.
- 3.4 As a mechanism for triggering the guarantee, the MEF will reach agreement with the concessionaire to create a trust where it will allocate the APC funds to be paid by the Government of Peru to the concessionaire. To ensure that this mechanism is

efficient and reliable, the trust administrator will notify the Bank if the resources have not been deposited by the government on the dates agreed to in the contract.

- 3.5 The financial management responsibilities of the executing agency are as follows: (1) to guarantee the existence of a trust for program administration; (2) to pay the service fee, as stipulated in the guarantee contract; (3) to include APCs to the trust in the MTC budget; and (4) to include the payments for AWMPs (should toll revenues be less than the AWMP) in the MTC budget.

C. Conditions precedent to the disbursement of the guarantee

- 3.6 As a condition precedent to the guarantee becoming effective, the executing agency must demonstrate to the Bank's satisfaction that: (a) a concession contract has been signed by the grantor and the concessionaire; and (b) agreement has been reached with the concessionaire on the principal terms of the trust that will be established to administer and coordinate the program's cash flow. As a condition precedent to the disbursement of the guarantee: (a) the concessionaire must have completed to the grantor's satisfaction the works of each phase or milestone,⁵ fulfilling the social and environmental commitments under the contract during the construction phase, these having been accepted by the grantor; (b) it must be demonstrated that the MTC has made progress in implementing the programs accorded priority in the strategic environmental assessment, including the drafting of an agreement with INRENA; (c) PROINVERSION has presented a legal opinion indicating that during the bidding on the concession all procedures and requirements set out in Peruvian law have been satisfied and that no legal challenges to, or complaints against, the award have been lodged; and (d) it must be demonstrated that a trust agreement whose content is acceptable to the Bank has been signed and/or amended and that the trust accounts have been opened. Should the concession be terminated early, the guarantee will cover partial payment of the APC, provided the Bank's social and environmental policies have been fulfilled during the construction stage, and those works were accepted by the grantor.
- 3.7 Disbursement of the guarantee will be conditional on the fulfillment of the following requirements: (a) the trust agreement has been maintained fully effective; (b) any amendment to the concession agreement affecting the APC (amounts and periods) and the social and environmental conditions must have the Bank's no objection; (c) any amendments to the trust agreement must have the Bank's no objection; (d) the service fee must have been paid; (e) the disbursement notification must have been received; and (f) it must be demonstrated that an agreement has been signed between the grantor and the concessionaire on delivery, acceptance, and valuation of the corresponding part of the works.

⁵ The Peruvian government may issue a certificate of completion (CAO) acknowledging acceptance of a construction milestone (i.e. part of the works) when work has been completed to a particular project milestone.

D. Trust contract

- 3.8 The trust contract will cover the functions, responsibilities, and mechanisms for coordination and decision-making of the participating agencies and the bodies that will coordinate program payments. It also spells out the mechanisms for notifying the Bank if the Government of Peru does not make the APCs.

E. Selection of the concessionaire

- 3.9 Pursuant to the Bank's procurement policies (document GN-2349-4), when the Bank is involved in financing operations that include concessions with the private sector, be these loans or guarantees, the concessionaire must be selected through international competitive bidding in accordance with procedures that may be agreed to by the Bank and the borrower.⁶ In this case, the concessionaire will be selected in accordance with the international competitive bidding procedures set forth in Peru's Law on Concessions, in force since 1996, which PROINVERSION is bound to follow and which has been used to award many concessions in that country, including the projects financed by the Bank's Private Sector Department.⁷ This law is based on the model of the United Nations Commission on International Trade Law (UNCTRAL) and, although there is room for improvement,⁸ it is congruent with the principles of economy and efficiency set forth in Bank policy.
- 3.10 In January 2005, PROINVERSION incorporated into its bidding conditions the possibility of obtaining a guarantee from a multilateral institution and therefore had nine prequalified bidders who met the eligibility requirements of the Bank's procurement policies with regard to nationality. During the bidding process, when the date for delivery of proposals was changed several times, the modifications to the conditions and the model contract were posted on the Internet. The project was awarded on 5 May 2005 to the consortium CONCESIONARIA IIRSA NORTE S.A, made up of the construction firm NORBERTO ODEBRECHT S.A. (49.8%), the construction firm ANDRADE GUTIERREZ S.A. SUCURSAL DEL PERU (40%), and GRAÑA Y MONTERO S.A.A. (10.2%).
- 3.11 During the prequalification and selection process, there were no protests or refutations that needed to be resolved by PROINVERSION's Executive Council.

⁶ Pursuant to these same policies, paragraph 3.16, when the Bank participates in guarantee operations, it need only ensure that project procurements are made in accordance with the principles of economy and efficiency, seeking to ensure that the goods and services to be procured are of compatible quality, delivered on time, and that their prices do not affect project viability.

⁷ PE-0210 Redesur transmission line project (1996), PE-0235 Red Vial 5 toll road project (2003), PE-0216 Graña y Montero (2003), and PE-0222 Camisea project (2003).

⁸ Some observations have been made on this matter within the context of the Country Procurement Assessment Review (CPAR) exercise carried out by the IDB and the World Bank, which will be discussed with the Government of Peru.

F. Execution period and duration of the guarantee

- 3.12 The guarantee becomes effective as soon as it has been signed. The Bank's obligations under the guarantee contract expire 20 years after the signing date. The guarantee will be triggered if the Government of Peru delays payment of the APC. The annual payments for construction covered by the guarantee may include recognition of partial progress in the event of early termination of the contract.

G. Monitoring and evaluation

- 3.13 Works will be executed in accordance with the technical proposal submitted by the concessionaire. The works supervisor, contracted by OSITRAN, will approve the final detailed engineering project submitted by the concessionaire. Thirty days before the works begin, the concessionaire must present to the regulator a works execution plan detailing the works to be carried out and the corresponding timetable. The concession contract sets forth a series of milestones for partial recognition of works, through certificates of completion (CAOs). During construction, the project team will conduct at least one project administration mission every six months to monitor and analyze the progress of the works execution plan. The grantor, together with the supervisor, agrees to submit to the Bank semiannual progress reports on the works, prepared by the supervisor.
- 3.14 Once each of the milestones is met in the construction phase, the Government of Peru will notify the Bank of its acceptance of the works by means of a certificate of completion issued by the Works Acceptance Committee and the regulatory body, OSITRAN. This certificate must refer to the fulfillment of the environmental and social standards established in the concession contract, which are consistent with Bank policy. During project implementation, the Government of Peru (through the MTC and OSITRAN) will report annually to the Bank on fulfillment of the contractual obligations, and on the progress made in attaining the indicators and targets for the project set out in Annex I (Logical Framework).
- 3.15 Once the project's operation phase and the APCs have begun, the executing agency will submit semiannual reports to the Bank on the payments made by Government of Peru to the concessionaire and on payment of the service fee. Once a year, the project team will review the budgetary allotments made to the MTC and will verify that the MEF has made the budgetary allotment for payment of the APC.

H. Audits

- 3.16 The Bank reserves the right to request at any time during the life of the guarantee reports from external auditors acceptable to the Bank on how the resources in the relevant trust fund accounts were used.

I. Final evaluation

- 3.17 A final program evaluation will be conducted, with the participation of PROINVERSION, MTC, and OSITRAN, when construction has been completed. The government and the Bank have agreed to conduct a post review of the project to confirm the impact identified in the Logical Framework. Due to the nature of the impact, the evaluation should take place five years after the road has entered into operation. The concessionaire will compile and make available the necessary information related to indicators of road safety, road serviceability, travel time, and road conditions, at the request of OSITRAN and as per the terms of the contract.
- 3.18 The concessionaire will compile baseline data (which will correspond to the time it receives the corridor) and will collect information semiannually that it will include in its reports to OSITRAN, the regulatory agency. The concessionaire must have compiled and updated the baseline values set out in Table III-1 by the deadline specified in the concession agreement.

Table III-1				
Indicator	Unit	2005	2010	2012
ALL	Veh./day			
Yurimaguas–Tarapoto	Veh./day	293	478	511
Tarapoto–Puente Nieva	Veh./day	1,318	1,731	1,846
Puente Nieva–Corral Quemado	Veh./day	1,604	2,150	2,309
Corral Quemado–Olmos	Veh./day	618	775	814
Olmos–Piura	Veh./day	1,174	1,316	1,319
Piura–Paita	Veh./day	1,172	1,279	1,269
Operating costs (Annual total)				
Yurimaguas–Tarapoto	US\$	665,103	736,698	772,123
Tarapoto–Puente Nieva	US\$	52,258,255	61,113,341	65,497,900
Puente Nieva–Corral Quemado	US\$	21,918,141	22,805,453	24,981,152
Corral Quemado–Olmos	US\$	4,073,218	5,248,659	5,570,937
Olmos–Piura	US\$	12,754,487	14,349,989	14,465,805
Piura–Paita	US\$	13,258,078	14,284,200	14,502,702
Travel time	Minutes			
Olmos–Rioja–Tarapoto–Yurimaguas	Minutes	742.6	685.5	685.5
Olmos–Paita	Minutes	214.5	198	198
Road conditions	IRI m/km	5.05	3.0	3.0
Reduction in accident rate⁽¹⁾	Accidents per million veh./km	Not available	Not available	Not available
Road serviceability⁽²⁾ The information will be available six months after the concession takes effect.	Number of days road is impassable/year	Not available	Not available	Not available

(1), (2). One of the concessionaire's obligations is to establish the corridor's baseline for road serviceability and safety, submitting periodic reports to the supervisor for evaluation purposes. At present, no information exists on the accident rate and road serviceability in the corridor.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 Several institutions are involved in project preparation and execution; this varies according to project stage. They are listed below in Table IV-1.

Table IV-1 Responsibilities during Program Preparation and Execution				
Structuring the Northern Amazon Hub Corridor				
Determines technical standards and economic viability	Makes decision to conduct the project with a PPP arrangement	Project design and promotion	Evaluation and awarding	Monitoring, supervision
MTC MEF	MTC MEF PROINVERSION	PROINVERSION MTC (support)	PROINVERSION MTC (support)	OSITRAN MTC (support)
Partial Credit Guarantee				
Determines amount of the guarantee	Signs guarantee contract	Pays APC and commitment fees		
MEF	MEF	MEF, MTC		

- 4.2 PROINVERSION has experience in project design and promotion, and in awarding infrastructure projects with private participation; it also has recent experience in structuring road concessions, including Red Vial 5. The legal, technical, and socioenvironmental lessons learned from the Red Vial 5 project were used in designing the present concession project.
- 4.3 PROINVERSION has a team of around 120 people who, for the most part, are professional and technical personnel with experience in structuring this type of project from the outset of the process. PROINVERSION is also receiving technical support from the United States Agency for International Development for this project, by means of which it contracted an investment bank to conduct the necessary technical, financial, economic, and environmental studies. With regard to works supervision, OSITRAN will be in charge of supervising fulfillment of the technical, financial and socioenvironmental terms of the contract. OSITRAN has experience supervising concessions in the transportation sector and is currently supervising two road concessions, Ilo-Matarani and Red Vial 5. The MTC is responsible for establishing the technical parameters for the road, including service levels and determining the minimum works to be executed by the concessionaire. The MTC is also responsible for approving possible technical changes in project scope.
- 4.4 PROINVERSION has the institutional capacity to structure the project and OSITRAN to promote and supervise it. However, in order to be equipped to

manage the public-private partnership (PPP) projects that have been programmed, the Bank is preparing a technical-cooperation operation with the Multilateral Investment Fund to promote institution-strengthening in the entities in critical aspects of PPPs. As far as the administration of the guarantee contract is concerned, a trust will be used for the Government of Peru to make the agreed APC deposits and to pay the guarantee fee.

B. Socioeconomic viability

- 4.5 Program actions will contribute to improving the standards of living of the population in the project's area of influence, and to integrating remote regions of Peru.
- 4.6 For each stretch of the project, an economic assessment was conducted as part of the engineering studies; these have been approved by the National Public Investment System. In addition, PROINVERSION carried out an economic assessment of the entire corridor concession, which includes an assessment of each stretch and a comprehensive analysis of the corridor as a whole. The economic assessment yielded positive values of 14.2% for the works to be carried out in the entire corridor and sensitivities on the order of 20% for the principal parameters to maintain the positive value of the investment.
- 4.7 The following was considered for calculating the traffic generated: the impact of the new roads being built, which will be feeder roads for the corridor; the impact of improved specifications on traffic; and the impact of increased international traffic. The economic assessment compiles information from a number of studies on traffic and demand, and analyzes international traffic with Manaus, which will be made possible through the connection of cities in the jungle (Iquitos and Yurimaguas) with cities in the highland and coastal areas; it also examines the international trade generated by the Tarapoto–Loja–Cuenca connection.
- 4.8 The regional GDP growth assumptions, which serve as the basis for projecting traffic, range between 4.44% and 3.29%; 3.7% was used as the neutral scenario. Elasticities range from 0.6 to 1.9, depending on the type of vehicle. Taking this into account, traffic projections were made with parameters that ranged from 3.1% for the pessimistic scenario to 5.05% for the optimistic scenario; the base for the neutral scenario was 4.1%. To estimate the traffic generated, calculations were made with the assumption that 33% of the traffic generated by the new feeder roads would be transferred to the corridor and was included as of the date the works are expected to be completed (between 2006 and 2013). International traffic generated becomes tangible as of 2008 for traffic with Ecuador, and as of 2013 for traffic with Brazil. In the baseline scenario, around 45 trucks per day are expected for traffic with Ecuador, and nine trucks per day for traffic with Brazil. Table IV-2 summarizes the principal assumptions.

Table IV-2			
	Neutral scenario	High scenario	Low scenario
Growth of regional GDP (% annual average)	3.70	4.44	3.29
Growth of inertial traffic (% light vehicles)	4.17	5.05	3.10
International traffic with Ecuador (trucks generated/day), as of 2008	9.00	18.00	2.00
International traffic with Brazil (trucks generated/day), as of 2013	45.00	68.00	9.00
Local traffic generated	33% of the traffic generated on the feeder roads to be completed during the concession period		
	Light vehicles	Buses	Heavy vehicles
Baseline elasticity (ratio of GDP to growth rate)	1.6	0.8	1.8

- 4.9 The HDM-III model was used to calculate the benefits in terms of savings in operating costs for freight and passenger vehicles, and savings in travel time. Costs included investments for improving existing infrastructure and maintenance costs for scenarios with and without the project. They also included the cost of the environmental mitigation and prevention programs, among others, to be implemented by the concessionaire, as well as the environmental costs to be assumed by the Government of Peru for actions by public entities under the Strategic Environmental Assessment. The lower investments required in the future because of better river protection systems and the reduction in losses caused by road closings were quantified as indirect benefits.
- 4.10 The economic assessment yielded a positive result of 14.2% for the neutral scenario and 12% for the low scenario, as is indicated in Table IV-3. Each specific section has different returns and different interventions contributing to the formation of a homogenous corridor⁹ ([Link 1](#)). Given the complexities of the project's technical contingencies and because most of the contingencies were incorporated into the benchmark proposal for the project, the risks were analyzed and appraised, and additional runs were performed under the high and low contingency scenarios ([Link 2](#)). Both scenarios used the methodology of risk appraisal with a certainty equivalent.¹⁰

⁹ The analysis found that two stretches of the corridor had returns under 12% (Olmos–Piura and Piura–Paita with net present values of –US\$12.10 million and –US\$11.53 million, respectively). The interventions in those segments would mostly be bank stabilization, river protection works, and rehabilitation activities aimed at protecting existing works, the benefits of which are not captured by the operating cost savings models for traditional traffic.

¹⁰ The probability of occurrence of an event and valuation of the cost or cost overrun the concessionaire would incur each time an event occurs yields the expected value of project cost overruns associated with random variables.

Table IV-3 Economic Assessment of the Program			
	Neutral scenario	High scenario	Low scenario
Net present value (US\$ millions)	31.8	64.42	-0.54
Internal rate of return (%)	14.2%	16.0%	12%
		Low contingency valuation	High contingency valuation
Net present value (US\$ millions)	31.8	33.14	29.26
Internal rate of return (%)	14.2%	14.3%	14.0%

- 4.11 The origin–destination analysis of the corridor found that all the sections were interdependent and essential for guaranteeing the functionality of the corridor as a whole. In all, 83% of traffic on the corridor originated in or is destined for the Piura–Paita and Olmos–Piura stretches. Most of the long-haul traffic on the corridor is generated or ends there.

C. Financial viability

- 4.12 Government of Peru resources for financing the project will total a maximum US\$29.5 million per year for the annual payment for construction, and US\$15.3 million for the annual works maintenance payment. Of these, an average of US\$10.8 million will initially be covered by toll revenues generated by the concession. The MEF will include these resources annually in the MTC budget as of year 3 of the concession. Government investment in the transportation sector during the past five years was on average US\$330 million, ranging between US\$481 million and US\$216 million. Accordingly, the APC payment commitments represent around 8% of the MTC’s investment budget.

Table IV-4 Investment in transportation							
	1998	1999	2000	2001	2002	2003	Average
TOTAL INVESTMENT IN TRANSPORTATION	502.5	469.1	335.1	306.9	278.0	307.1	366.4
Public investment	500.3	466.9	331.9	290.7	220.7	269.3	346.6
% of GDP	1.0%	0.9%	0.6%	0.6%	0.4%	0.5%	0.7%
Private investment	2.2	2.2	3.2	16.2	57.3	37.8	19.8
% of GDP	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%
Investment in road transportation	481.07	454.40	300.26	281.49	216.21	252.70	331.02

D. Technical viability

- 4.13 The project has detailed engineering studies for each stretch, which will be used by the concessionaire for reference purposes; they define the minimum works required

for each stretch. The specifications for the stretches of road to be financed have been defined taking into account current and projected traffic needs; the concessionaire will be required to maintain the service levels on each stretch. The project does not include technically complex works, and the designs for the works indicate that the corridor to be improved will reach technical functionality. The concession contract contains provisions for ensuring suitable road maintenance and operation, including routine maintenance. It has a detailed annex of conservation, use, and control procedures for management of the concession, as well as procedures for evaluating the progress of the works.

E. Environmental impact

- 4.14 The project's social and environmental considerations are framed by the country's environmental protection standards, which are congruent with Bank policy. A Strategic Environmental Assessment (SEA) has been conducted for the corridor and its area of influence, and the different stretches have individual environmental impact assessments (EIA). To do this, the following actions were taken: (i) review and reformulation of environmental impact assessments, (ii) review and formulation of a Strategic Environmental Assessment, (iii) review of the design to be used as a reference for minimizing adverse impact on the environment, (iv) greater weight given to socioenvironmental considerations when ranking bidders in the competition for the concession, (v) inclusion in the concession contract of requirements to prevent and mitigate socioenvironmental impact, and (vi) inclusion of conditions precedent to the entry into force of the guarantee regarding compliance with the Bank's environmental and social policies (see paragraph 3.8).
- 4.15 **Principal socioenvironmental impacts.** The program will have considerable positive impact, much of it significant, as indicated in paragraph 4.26. The potential adverse environmental and social impacts of the operation range from moderate to low because the program involves works to rehabilitate and improve an existing roadway and recover critical areas affected by El Niño, and does not involve opening up new roads, expanding existing roads, or building bypasses.
- 4.16 *Direct impacts.* During the construction stage¹¹ the following impacts can be expected: (i) soil erosion and landscape degradation, with possible sedimentation of nearby bodies of water; (ii) soil and water pollution caused by waste and effluents produced in the work areas; (iii) risk of landslides and collapses in unstable areas due to earth movements; (iv) landscape degradation and contamination of bodies of water due to inadequate disposal of waste and debris; (v) river and stream bed intervention; (vi) accidental rupture of pipes or public utility lines, and temporary

¹¹ In the contract, the first phase is referred to as the construction stage. However, this refers to works to resurface, maintain, and pave a small stretch (6% of the full length), as well as drainage and protection works.

interruption of services in urban areas; (vii) generation of noise, gas, and dust; (viii) traffic congestion and temporary blocked access to dwellings and businesses in populated areas; (ix) dangerous driving conditions while works are under way; and (x) risks to workers of occupational diseases and accidents. In some stretches, geotechnical instability is high, which can cause traffic delays and interruptions; this will be mitigated during the works stage, as explained in paragraph 2.8 and in Table II-2.

- 4.17 The following impacts can be expected during the operation phase: (i) risk of hazardous materials spills; (ii) increased road accidents; and (iii) increased noise and emissions pollution. The concession contract includes the environmental management plans for the construction and operation phases, as well as fines and penalties for noncompliance during the operation phase. The concession contract has technical specifications for increasing road safety, with particular emphasis on right-of-way areas.
- 4.18 *Indirect impacts.* Moderate to low impacts are expected, given that most of the works to be undertaken consist of building protection works and drainage systems, improving the wearing course, and rehabilitating bridges on an existing road. The following impacts were identified in the SEA: (i) possible increase in the cultivation of illegal crops; (ii) land use changes from agricultural to commercial and residential; (iii) possible illegal activity in forest areas for farming activities; and (iv) possible impact on local cultural patterns and possible migration of local inhabitants to cities. Indirect impacts have been classified as moderate to low because it was determined that no indigenous reservations or areas vulnerable to deforestation exist within the area of indirect influence with access by land to the feeder roads. In the La Escalera highland protection forest, located in the area of direct influence, no problems exist of illegal extraction of lumber or fauna, or of illegal settlements, and according to the analysis these problems are not expected to arise. Most of the impacts identified are being addressed by the USAID Poverty Reduction and Alleviation Project, which is a comprehensive program being implemented in the area to replace illegal crops and reduce poverty, while also providing infrastructure in the region.
- 4.19 *Right of way.* Program works will not require expropriation of properties as no expansions or changes in routing are necessary, and because all works will be executed in the unoccupied right of way ("concession area") to be transferred to the concessionaire. There are some 170 settlements scattered throughout the corridor. Although they occupy the right of way they do not represent an impediment for the works. Under the concession contract, the concessionaire is required to improve the safety conditions of settled areas although the MTC continues to be legally responsible for the right of way. PROINVERSION and the MTC presented, to the Bank's satisfaction, a compensation, rehabilitation and relocation plan for the corridor, in compliance with policy OP-710. The concessionaire is required to keep the unaffected right of way clear and to keep clear the right of way freed up by the

MTC in the medium term. The IDB, through the highway rehabilitation and improvement program, is working with the Directorate General of Environmental Affairs (DGASA) to formulate a national policy for recovering and preserving the right of way.

- 4.20 *Indigenous groups.* There are no indigenous communities in the project's area of direct influence, although some live in its area of indirect influence, nor are there other potentially vulnerable communities such as Afro-descendant groups. The indigenous communities were consulted during preparation of the SEA, which identifies impacts on indigenous communities, including loss of cultural identity and inadequate land use and land tenure, which will be moderate to low in impact. It also identifies a number of development programs that involve the indigenous communities.¹² Implementation of the plans will be on the agenda for the dialogue on the environmental assessment to be held by the Bank in Peru in 2005.
- 4.21 **Environmental and social management plan.** The EIAs and the SEA identified direct and indirect environmental impacts during the project construction and operation phases. An environmental and social management plan was agreed to for addressing these impacts, which includes actions to ensure timely and effective implementation of measures to prevent, mitigate, and compensate for these impacts as a contractual obligation of the concessionaire, who must cover the cost of same. In addition, measures to prevent and mitigate the principal indirect impacts identified were accorded priority. The EIA environmental management plans contain programs for preventing and mitigating impact, as follows: (i) environmental control and/or mitigation, including measures to prevent, control, correct, avoid, or mitigate potential adverse impacts during the construction and operation phases; (ii) environmental monitoring, which consists of periodic assessments of the critical variables and verification of fulfillment of mitigation measures; (iii) environmental training and education on good environmental practices for employees of the works and the community; and (iv) contingencies for emergency prevention and response. The environmental management program for all stages of the project includes investment and management measures in the concession contract. The project offers valuable additionality in managing road safety, weigh stations, and the control of illegal traffic in the corridor.
- 4.22 To mitigate indirect environmental impacts, a social and environmental management plan was designed with the following priority, higher impact programs: (i) communication and dissemination; (ii) institution-strengthening; (iii) environmental monitoring; and (iv) strengthening the control system for the traffic in lumber, illegal crops, and hazardous materials. The measures the concessionaire must take to mitigate these effects include building police posts and

¹² Project for the Integral Development of Alto Mayo, Program for the Development of the Amazon, Strategic Agricultural Development Plan for the Amazon, Craft Development Program, Land Titling and Development Program, in addition to the programs of the Poverty Reduction and Alleviation project.

providing public services and communications facilities in the corridor. This will considerably improve the control of traffic in lumber, protected flora and fauna, hazardous materials, and illegal crops. Before the guarantee can become effective, the MTC must sign an agreement with the National Institute of Natural Resources (INRENA) to ensure adequate control of the toll booths. The overall management of deforestation prevention programs, protected area programs, and land use programs will be addressed through the environmental assessment of Peru, to be performed by the Bank in 2005.

- 4.23 The Bank is strengthening participating agencies to supplement the institution-strengthening and environmental monitoring programs. In the case of PROINVERSION and OSITRAN, this will take place through the MIF operation (PE-M1011, public-private partnerships), which is in preparation. DGASA is receiving institution-strengthening support through operations in the transportation sector: the highway rehabilitation and improvement program (PE-0197) and departmental roads program (PE-0236). Institution-strengthening efforts targeting the National Environmental Council (CONAM), INRENA, and the Technical Secretariat for Indigenous Affairs (SETAI) receive Bank support through the program for institution-strengthening and environmental and social management support for the Camisea gas project (PE-0233). Another activity that will have a positive effect on the indirect impacts identified in the SEA is the USAID Poverty Reduction and Alleviation Project (PRA project). This is an alternative development program that aims to substitute illegal crops and create rural jobs with a strategy that is linked to the infrastructure in the area of indirect influence. Because the corridor is of priority for the implementation of other programs under the PRA project, the project team and PROINVERSION have worked together with USAID, and USAID has provided technical assistance to PROINVERSION in structuring the corridor.¹³
- 4.24 **Consultation process.** Consultations were carried out during the second half of 2004 in connection with the formulation and updating of the EIAs. In addition, workshops and consultations on the SEA were held with local inhabitants, civil society, nongovernmental organizations, and regional and local authorities from September to December 2004. The EIAs for the different stretches were published in the PIC on 16 December 2004.
- 4.25 **Monitoring and supervision.** The environmental authority for the transportation sector is the MTC's Directorate General for Socioenvironmental Affairs (DGASA), which has the tools required for facilitating socioenvironmental management. PROINVERSION has a Division (DASC) responsible for the participation and

¹³ The PRA project has a number of supplementary programs under way that support implementation of the SEA in the area of indirect influence. These include land titling programs, legal lumber extraction programs, and programs with indigenous communities, as well as its programs to create rural jobs and to substitute crops.

consultation processes, and for issuing the “social license,” which states that the project has been accepted by local and regional authorities, as well as by social and community groups. PROINVERSION has also established a framework for socioenvironmental management in its project cycle. OSITRAN, which is responsible for supervising the concession, has the authority to sanction noncompliance with environmental management plans or violations of socioenvironmental regulations; it hires external firms to perform this supervision. In the opinion of the project team, the relevant institutions have the institutional capacity needed to carry out the functions under their responsibility.

F. Benefits

- 4.26 Bank support with guarantees for innovative arrangements for financing infrastructure projects enables the Government of Peru to establish a track record, which will eliminate the perceived risk in future projects. Bank support at the outset of the process encouraged competition among prequalified entities and bidders; the Bank guarantee of the government’s commitments also helped to lower costs by enabling the bidders to use more favorable financing terms in their calculations when preparing the economic proposals. This project, executed under the proposed PPP arrangement, will produce important regional and nonregional benefits on time and at the expected cost. It will also ensure that suitable operating and service standards will be maintained in the corridor during the economic life of the concession. The proposed arrangement addresses, as an integral part of the project, safety issues, response to natural phenomena, and the mitigation and management of environmental and social impacts during the project’s construction and operation phases. The guarantee provided by the Bank for the annual payments for construction has increased competition among bidders and improves the program’s credit risk.
- 4.27 The principal project benefits are that Peru’s competitiveness will be increased, it will integrate remote regions of the country, and it will contribute to road integration with IIRSA countries. These benefits will result from the improved transportation conditions for people, for national freight transport, and for foreign trade. The project seeks to reduce transportation costs and travel time, and to improve road safety.
- 4.28 The improvement of transportation conditions in the Northern Amazon Hub will have a positive impact on the value chain of Peru’s agricultural and industrial sectors, and will have a multiplier effect on other competitiveness factors, such as improved access of nearby production and service centers to human and natural resources. Road safety conditions for users will be improved because the concessionaire is under the obligation to maintain the road at established service levels. This includes traffic signs, lighting, obstacle removal, management of the right of way, and other conditioning factors.

- 4.29 The project does not classify as PTI/SEQ. However, its impact on economic growth will contribute to the goals of the poverty reduction strategy. The project benefits urban populations and promotes industrial and agricultural development in the project's area of influence. It will also make it possible to bring isolated areas in the area of influence of the Huallagas and Amazon rivers into the rest of the Peruvian economy, promoting sustainable industries such as the ecotourism.

G. Risks

- 4.30 **Technical and financial strength of the concessionaire.** For the concession to be successful the concessionaire must have the technical expertise necessary to execute the works, and be financially sound. This risk is being mitigated by using a consortium of experienced, technically and economically sound partners.
- 4.31 **Noncompliance of environmental conservation and mitigation commitments during construction and operation.** Pursuant to Bank policies on guarantees, the guarantee becomes effective once the Government of Peru indicates that it has completely or partially accepted the construction works. The guarantee contract between the IDB and the Government of Peru will contain a safeguard to the effect that compliance with environmental and social requirements during construction must be verified by OSITRAN, with MTC support, precedent to and as a condition for acceptance of the works. Annual works maintenance payments will be linked to compliance with environmental and social requirements during operation, to be checked by OSITRAN.
- 4.32 **Termination of the contract.** The project will have two stages: the first will cover the first two years of the concession and the second, years three and four. In order to mitigate the risk that the concessionaire may terminate the contract early during the construction phase or the operation phase, the contract includes an exhaustive system of fines and penalties that will discourage early termination due to noncompliance by the grantor, the concessionaire, or by mutual agreement. Should the contract be terminated due to noncompliance by the concessionaire, the guarantees are triggered, as are the payments in recognition of partial works.
- 4.33 **Fiscal impact of the APC and AWMP commitments.** The Government of Peru, by undertaking commitments to pay the APC and AWMP for 25 years, is pledging future fiscal resources that could affect the sector's investment capacity. This risk has been mitigated through the commitments agreed to with the Bank under the program to improve the quality of public management and expenditure (PE-L1012). As a condition precedent to the disbursement of that operation, the Government of Peru incorporated in the Borrowing System Act the handling and recording of liabilities and guarantees, setting a limit for these of 0.5% of GDP per annum.

GUARANTEE PROGRAM FOR THE IIRSA NORTHERN AMAZON HUB (PE-L1010)

LOGICAL FRAMEWORK

Objective	Indicators	Means of verification	Assumptions
Goal			
To reduce poverty in the Northern Amazon Hub by improving competitiveness through sustainable socioenvironmental development	<ul style="list-style-type: none"> Two years after the project begins, a 10% increase in production in the regions in the area of influence (Amazonas, Loreto, San Martín, Lambayeque, Cajamarca, and Piura), and a 15% increase after four years. <p>Baseline: INEA statistics compiled for the base year 2004 economic assessment</p>	<ul style="list-style-type: none"> Reports of the National Institute of Information Technology Statistics for the sectors covered by the Ministry of Agriculture, the Ministry of Foreign Trade and Tourism, and the Ministry of Labor and Social Development Reports from the Superintendencia Nacional de Administración Tributaria [National Superintendency of Tax Administration] (SUNAT) Semiannual reports of the contract supervisor, OSITRAN 	<ul style="list-style-type: none"> The macroeconomic and commercial environment favors project objectives. The problem of pilotage for Peruvian boats in Brazil is solved. Phosphate deposits in Bayovar begin to be tapped. The operation of the ports of Yurimaguas, Iquitos, and Paita is maximized.
Purpose To promote economic integration in Peru by improving conditions in the Northern Amazon Hub through a public-private partnership arrangement	<ul style="list-style-type: none"> Six months after the works in phase I have concluded, average annual daily traffic (AADT) has increased by 6% over the base year (2004). <p>Baseline: Traffic counts, base year 2004</p> <ul style="list-style-type: none"> Six months after the works of phase II have concluded, the AADT has increased by 6% over the base year (2004). <p>Baseline: Traffic counts, base year 2004</p> <ul style="list-style-type: none"> 30% increase in savings in average vehicle operating costs six months after completion of phase II as compared to upon completion of the works of phase I. <p>Baseline: Runs of the HDM Model for the base year 2004 economic assessment</p>	<ul style="list-style-type: none"> OSITRAN monthly reports and management reports Road safety baseline prepared by the concessionaire 	<ul style="list-style-type: none"> The concessionaire successfully completes the construction. The concessionaire has management agreements with the Peruvian National Police for recording accidents. The prevention plans and insurance systems function effectively in dealing with the effects of El Niño.

Objective	Indicators	Means of verification	Assumptions
	<ul style="list-style-type: none"> Three years after completion of the works in phase I and phase II, road serviceability is maintained at 100%, except in years registering El Niño effects. 10% reduction in accidents three years after the works of phase I and phase II have been completed. <p>Baseline: Reports from the concessionnaire at the start of the concession</p> <ul style="list-style-type: none"> 17% reduction in the international roughness index (IRI) for the Paita–Tarapoto stretch at the conclusion of phase II of the program, and 133% drop in the IRI for the Tarapoto–Yurimaguas stretch at the conclusion of phase II, over the base year (2004). <p>Baseline: Runs of the HDM Model for the base year 2004 economic assessment</p> <ul style="list-style-type: none"> Reduction in the variability of the IRI: stable IRIs three years after phases I and II are concluded, compared to the base year (2004). <p>Baseline: Runs of the HDM Model for the base year 2004 economic assessment</p> <ul style="list-style-type: none"> 8% reduction in travel time, on average, at the end of phase II of the program for the Paita–Tarapoto stretch; a 64% reduction in travel time for the Tarapoto–Yurimaguas stretch at the conclusion of phase II, compared to the base year (2004). <p>Baseline: Runs of the HDM Model for the base year 2004 economic assessment</p>		

Objective	Indicators	Means of verification	Assumptions
<p>Components</p> <p>1. Partial credit guarantee to cover annual payments for construction</p>	<p>Output indicators at program end:</p> <ul style="list-style-type: none"> • The guarantee becomes effective once the construction works in the different stages are completed. • The works are completed within the expected timetable. • The bidding process for the concession is conducted successfully with two or more bidders. • All the socioenvironmental plans and measures established in the concession contract are executed. • The environmental safeguards and policies are fulfilled before the guarantee contract takes effect. 	<ul style="list-style-type: none"> • PROINVERSION list of bidders • Chemonics studies with rating agencies • Joint PROINVERSION-OSITRAN report on fulfillment of contractual obligations and progress made in achieving project indicators and targets • Quarterly environmental reports and annual report from the concessionaire to OSITRAN, for the construction and operation phases, respectively • Agreement signed by MTC and INRENA • Report on the compensation, rehabilitation, and relocation plan for the right of way • Progress report on MTC's implementation of the Strategic Environmental Assessment 	<ul style="list-style-type: none"> • The guarantee arrangement fulfills market needs. • The bid is awarded to the winning concessionaire. • The actions and measures described in the environmental management plan, the environmental impact assessment plans, program 10 of the Strategic Environmental Assessment, and the contractual obligations of the concessionaire with regard to socioenvironmental matters, are successfully carried out.

Technical Note on Amazonas Norte Financial Structure

The financing for the execution of the Amazonas Norte project is composed of equity financing from the Concessionaire, construction finance obtained through a CAF Facility, and the proceeds of a series of bond offerings. The bond offerings will be securitized by future payment obligations of the Government of Peru (GOP). These payment obligations are referred to as PAOs (*pago anual de obra*).

The financial structure for the operation as structured in October 2005 is set forth in this text. The assumptions upon which this financial structure are based follow:

Assumptions

1. The CAF construction financing agreement and the IDB Guarantee Agreement are both signed prior to the initiation of the Project works.
2. The CAF Facility is executed between CAF and the Concessionaire and is supported by a sovereign guarantee of the GOP.
3. The IDB Guarantee Agreement is signed by the GOP (through the MEF) and the IDB. This Guarantee is supported by a sovereign counter-guarantee.
4. The term of the US\$60 million CAF construction facility is up to 3 years. It is structured similar to a line of credit with any outstanding amounts due at the end of the term.
5. The CAF Facility will be available as debt financing for the construction of the works provided that the amount drawn down under this facility does not exceed a ratio of 80/20 (CAF debt/equity).
6. The IDB Guarantee is for up to US\$60 million and it has a term of up to 20 years.
7. The first part of the construction works will be financed through equity.

There will be separate *fide comiso* accounts established for the CAF facility and the IDB Guarantee.

Description of Mechanics of Financing

1. Upon completion of an agreed upon construction milestone, the Concessionaire will request that the Ministry de Transporte e Comunicaciones (MTC) review the work and issue a certificate of completion for that milestone. This certificate of completion is referred to as a “CAO” and represents a percentage of the future PAO payments: the percentage is equivalent to the percentage of the work completed as measured in required infrastructure investment. The construction milestones have been designed so as to correspond to an amount equivalent to approximately ten percent (10%) of the total construction cost.
2. The Concessionaire will assign the rights derived through this CAO to CAF. The CAO certificates will be transferred to the Trust Agent.
3. CAF will lend the Concessionaire more funds from the Facility based upon the availability of funds under the Facility and the maximum permitted leverage. These funds will be used exclusively to finance the construction of the next

milestone of construction works. Once the next milestone has been achieved and approved by MTC, the cycle will repeat itself.

4. At some point in time (partially determined by market conditions), the Concessionaire will issue a bond which will be securitized by the CAOs. The proceeds of the bond will be received by the Trust Agent and deposited into the *fide comiso* account.
5. The waterfall of funds will require that the proceeds of the bond offering be used first to repay the CAF Facility. The repayment of the CAF Facility will be a back-to-back transaction with the bond placement.
6. The bond placement will be made in either the local or the international market: there are no restrictions placed upon the Concessionaire with respect to which market should be targeted. The bond will be securitized by the CAOs (pre-completion) and/or the PAOs (post-construction).
7. The IDB Guarantee is related solely to the flow of funds related to the underlying CAO and/or PAO: it is not a guarantee of the bond offering.
8. Given that the IDB guarantee backstops the flow of funds from the GOP (CAO and PAO), if the Concessionaire were to issue bonds, exercise a call option, and reissue bonds, the IDB guarantee would be rolled over to the new bond issue provided that there funds were available under the guarantee facility.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/05

Peru. Guarantee ____/OC-PE to the Republic of Peru
Guarantee Program for the IIRSA
Northern Amazon Hub

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 to provide to the Republic of Peru a guarantee for the execution of a program for the IIRSA Northern Amazon Hub. Such guarantee will be for an amount of up to US\$60,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

LEGIII/PE-539999-05
PE-L1010

INFORMACIÓN DISPONIBLE EN LOS ARCHIVOS DE RE3/FI3

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EJECUCIÓN:

Contrato de Fideicomiso.

PROINVERSION. Contrato de Concesión de las Obras y el Mantenimiento de los Tramos Viales del Eje Multimodal del Amazonas Norte del “Plan de Acción para la Integración de Infraestructura Regional Sudamericana IIRSA”. Contiene Anexos 1 a 9 Version Final

Contrato de Garantía Ramal Norte del Amazonas suscrito entre el BID y el GdP.